

U.S. Department of Housing and Urban Development

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“PARTNERS IN HOUSING”: MULTIFAMILY PRESERVATION TRAINING



Welcome

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- Welcome to “Partners in Housing” multifamily preservation training sponsored by HUD.
- Introduction of presenters
- Participant introductions around the tables
- Housekeeping: agenda, breaks, restrooms, cell phones

Lesson 1: HUD's Mission for Providing Affordable Housing

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Shaun Donovan
U.S. Secretary for Housing and Urban
Development
Appointed in 2009

Lesson 1: Objectives

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- Identify statements that accurately express HUD's mission for providing affordable housing and sustaining the investments the Department has made over time.
- Estimate the number of families that are provided with affordable housing through properties you work with.
- Recognize HUD programs and initiatives that support providing affordable multifamily housing.

Topic 1.1: HUD's Mission

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*“...to create strong,
sustainable, inclusive
communities and quality,
affordable homes for all.”*

From the HUD Strategic Plan FY 2010-2015
(<http://www.hud.gov/strategicplan>)

HUD's Mission Statement

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The Robert C. Weaver Federal Building,
located at 451 Seventh Street, SW, Washington, DC

HUD's mission is to create strong, sustainable, inclusive communities and quality affordable homes for all. HUD is working to strengthen the housing market to bolster the economy and protect consumers; meet the need for quality affordable rental homes: utilize housing as a platform for improving quality of life; build inclusive and sustainable communities free from discrimination; and transform the way HUD does business.

Key HUD Goal

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Among HUD's core strategic goals is the goal to meet the need for quality affordable rental homes. The focus of this training is aligned with this specific key HUD Goal:

- Preserve the affordability and improve the quality of federally assisted and private unassisted affordable rental homes.



Topic 1.2: HUD's Affordable Rental Housing Programs

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HUD's Sustained Commitment to Affordable Rental Housing

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- For over fifty years, HUD has made a significant investment in affordable rental properties through a variety of programs.
- It is critical to preserve these properties and sustain these investments.



HUD Secretary Donovan assists with drywall work in a New Orleans property

Section 8

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- Authorized by Congress in 1974.
- Purpose: To provide rental subsidies for eligible tenant families.
- HUD originally provided Section 8 project-based assistance to owners for terms of 20 or 40 years after the construction or rehabilitation of existing rental housing.
- Most of these contracts have now renewed under the Multifamily Affordable Housing and Rental Affordability Act (MAHRA). Owners may now renew Section 8 contracts for 1, 5 or 20 year terms when they expire.



Section 8 (continued)

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- No new section 8 is being provided, but existing contracts provide a subsidy that bridges the gap between rents needed to sustain properties and the rents tenants can afford to pay.
- HUD's ability to enter into new Section 8 project-based contracts was repealed in 1983 but HUD continues to renew more than one million Section 8 contract units.



Section 202

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- The Section 202 Elderly and Disabled Housing Direct Loan program originally provided below market interest rates on up to 50-year mortgages to developers of rental housing for low and moderate income elderly and persons with disabilities.
- In later years, the Direct Loan program provided mortgages at market interest levels on 40-year mortgages to developers of rental housing for low-income elderly and persons with disabilities.
- The Section 202 program recently celebrated its 50-year anniversary; the earliest 202s were funded with low-interest Direct Loans starting in 1959.
- Many Section 202s are also assisted (some or all of the units) by a Section 8 rental assistance contract.



Section 202 (continued)

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- Today, HUD is no longer making Section 202 Direct loans, but oversees approximately 2,660 active Direct Loans.
- These loans are beginning to reach maturity (more than 80 loans will mature in the next 5 years), and many are looking to obtain financing for seniors to age in place or make other improvements.
- After 1991, the Department discontinued providing Section 202 Direct Loans. Instead, HUD makes available Capital Advances and Project Rental Assistance Contract (PRAC) assistance available for the development of new Section 202 and Section 811 projects, through a competitive allocation process.

Section 236

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- The Section 236 mortgage and Interest Reduction Payments (IRP) program provided monthly subsidies to effectively reduce interest rates on private 40-year mortgages for rental housing for seniors or families.
- Basic rental charge determined for each unit deemed sufficient to meet operating expenses plus debt service expenses at the 1% interest rate.
- Tenants are required to pay the basic rental charge or 30% of their income, whichever is higher.

Section 236 (continued)

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- No new commitment activity has occurred since the program was terminated in 1973, but HUD continues to oversee a portfolio of 1,150 active Section 236 loans, all of which are maturing in the next 10 years.
- Many of these properties are owned by nonprofit organizations.



Rental Assistance Payments (RAP) and Rent Supplement (Rent Supp)

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- These rental assistance programs were designed to aid very low-income families in Section 236 projects. Some are also in place for Section 202 properties.
- HUD provided additional subsidies equal to the difference between the basic rent and 30% of income for a certain percentage of units in a project.
- Many insured projects receiving Rent Supp or RAP assistance also have Section 8 contracts in place.



RAP and Rent Supplement (continued)

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- Approximately 25,000 housing units are still assisted through Rent Supplement or RAP contracts.
- All Rent Supplement and RAP contracts will expire in the next one to ten years. Unlike Section 8 contracts, HUD does not have authority to renew these contracts when they expire.

Section 221(d)(3)

Below Market Interest Rate (BMIR)

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- Insured and subsidized mortgage loans to facilitate the new construction or substantial rehabilitation of multifamily rental or cooperative housing for low and moderate-income families.
- The reduced mortgage interest rate, usually from 1% to 3%, resulted in lower operating costs for these projects and therefore reduced rents.
- This program no longer provides subsidies for new mortgage loans.
- Some BMIRs are also assisted with Section 8 but most are unassisted.
- Today, just 30 BMIR mortgages remain active; all BMIR loans will mature in the next three years.

Section 221 (d)(3) and Section 221(d)(4)

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- These mortgage insurance programs insured private mortgages to developers of rental housing.
- Some of these mortgages have prepayment restrictions.
- Some of these properties have affordability restrictions or are assisted with Section 8 contracts that make them an option for low-income residents.



Flexible Subsidy

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The Flexible Subsidy Program was a secondary supplemental loan program that HUD made available to owners of HUD-insured or Direct Loan properties. These Flexible Subsidy loans have two components:

1. The **Operating Assistance Program (OAP)**:
 - Designed to provide temporary funding to replenish project reserves, cover operating costs and pay for limited physical improvements.
 - Operating Assistance was provided in the form of a non-amortizing loan.

Flexible Subsidy (continued)

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2. The **Capital Improvement Loan Program (CILP)**
 - Assisted projects with funding major capital improvements when they could not be made with project reserves.
 - CILP assistance was given via an amortizing loan, generally with an interest rate of 6 percent.
- Flexible subsidy loans typically must be paid in full when the owner prepays the HUD first mortgage. However HUD may consider requests to defer repayment.

Section 221(d)(3) LIHPHRA and ELIHPA

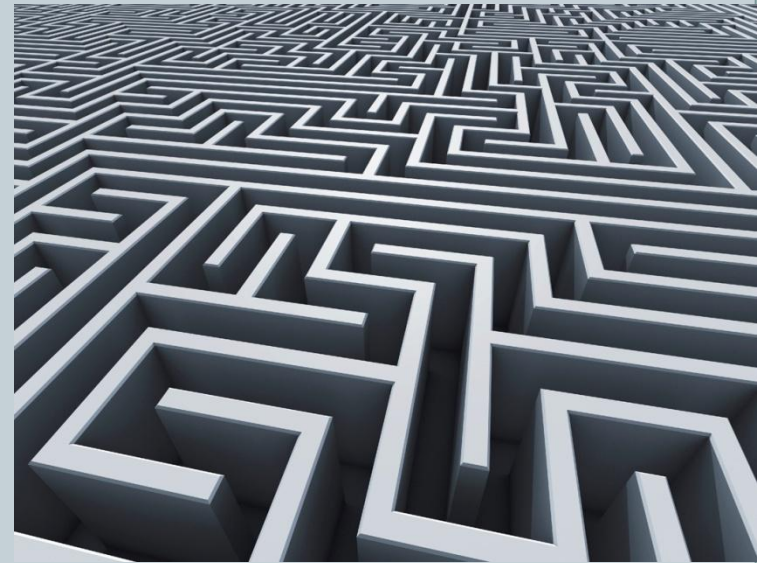
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- **Low Income Housing Preservation and Resident Home ownership Act (LIHPRHA) and Emergency Low Income Housing Preservation Act (ELIHPA)** projects were originally developed with Section 221(d)(3) loans.
- Owners received incentives for extending low-income affordability restrictions through the useful life of the project.

LIHPHRA and ELIHPA Challenges

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- Today more than 640 of these projects remain active and have unique challenges.
- HUD is working toward determining viable options to assist owners of LIHPRHA and ELIHPA properties.



Mark-To-Market (M2M) Program

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- One of the goals of the Mark-To-Market program was to reduce project-based Section 8 subsidized rents that were greater than market level in projects with FHA-insured mortgages.
- The program authorized HUD to reduce Section 8 rents to market rent levels in these projects.
- Some properties were able to continue to operate with reduced rents and some required refinancing to achieve smaller mortgages.



Locating Preservation Information on the HUD Website

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http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/presrv/presmfh

Preserving Multifamily Properties

Tools for Preservation of Section 202 Properties

Section 202 properties provide housing to low-income elderly residents. Thousands of properties were financed between 1959 and 1992 with HUD Direct Loans. These properties may, under certain conditions, prepay their existing mortgages for the benefit of the project and the project residents. The **Supportive Housing for the Elderly Act of 2010** made changes to the law regarding allowable prepayments and refinances of Section 202 properties. Guidance is under development to implement this new authority. In the interim, Owners should refer to the below Notices.

- ▶ **Housing Notice 02-16, Revised Prepayment of Direct Loans on Section 202 and Section 202/8 Projects**

Mark to Market (M2M) Legislation

- ▶ **MAHRA**, The Multifamily Assistance Housing Reform Appropriations Act, 1997
- ▶ **Redlined version of MAHRA** reflecting legislative changes (February 13, 2002)
- ▶ **Final rule** March 22, 2000
- ▶ **IRS Ruling (Rev. Rule 98-34)** see pgs 12 and 13. Dept of Veterans Affairs, HUD and Independent Agencies
- ▶ **H.R. 3061** Public Law 107-116 - M2M Extension Act of 2001.
- ▶ **HUD's Appropriations Act 2000 (H.R. 2684)**

Mark to Market Resources

- ▶ **Green Initiative**

 **Print Friendly Version**

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Related Information

- ▶ **State certified and licensed real estate appraisers**

Want More Information?

Preservation of affordable housing involves the active effort of many stakeholders. HUD is working to share resources on "Best Practices" for preservation, and to post regular updates to Multifamily portfolio data.

- ▶ **Multifamily Portfolio Datasets**
- ▶ **Affordable Rental Housing: State and Local Partnerships**, a resource guide.
- ▶ **Multifamily Properties: Opting In, Opting Out and Remaining Affordable** study
- ▶ **Choice Neighborhoods** is a grant program that provides support for HUD assisted housing.

Review Question 1

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1. What is HUD's core strategic goal that relates to affordable rental housing?
 - a. To create strong, sustainable, inclusive communities and quality affordable homes for all.
 - b. To preserve the affordability and improve the quality of federally assisted and private unassisted affordable rental homes.
 - c. To strengthen the housing market, bolster the economy, protect consumers, and meet the need for quality affordable rental homes.
 - d. To utilize housing as a platform for improving quality of life.

Review Question 1

27

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 - d. To utilize housing as a platform for improving quality of life.

Review Question 2

28

2. Today, HUD is no longer making this type of loan directly, but it does oversee approximately 2,660 active Direct Loans in this program. These loans are beginning to reach maturity (more than 80 loans will mature in the next 5 years)

What HUD program does this describe?

- a. Section 221(d)(3) BMIR
- b. Flexible Subsidy
- c. Section 202
- d. Section 236

Review Question 2

29

2. Today, HUD is no longer making this type of loan directly, but it does oversee approximately 2,660 active Direct Loans in this program. These loans are beginning to reach maturity (more than 80 loans will mature in the next 5 years)

What HUD program does this describe?

- a. Section 221(d)(3)BMIR
- b. Flexible Subsidy
- c. **Section 202**
- d. Section 236

Review: Lesson 1 Objectives

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- Identify statements that accurately express HUD's mission for providing affordable housing.
- Estimate the number of families that are provided with affordable housing through properties you work with.
- Recognize HUD programs and initiatives that support providing affordable multifamily housing.

Lesson 2: Affordable Multifamily Housing Challenges

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Lesson 2: Objectives

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- Explain the importance of keeping affordable rental housing available to people who need it.
- Identify challenges and potential benefits to keeping your partners' multifamily property available to low-income or elderly citizens.
- Recognize potential solutions to challenges your partners are facing preserving affordable multifamily housing properties.

Topic 2.1: The Importance of Affordable Multifamily Housing

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Why is Affordable Multifamily Housing Important?

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- Meets the housing needs of a range of different types of households.
- Key component of smart growth.
- Important to the economic vitality of larger community.
- Increased demand for building materials helps bolster the economy.



Topic 2.2: What's At Stake?

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Potential Impact of Insufficient Affordable Multifamily Housing

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- Members of low-income, special needs, and elderly populations may become homeless if affordable housing is not available.
- Economic challenges, fewer jobs and high foreclosure rates have increased the demand for affordable housing.
- 2010 Census data indicates that nearly one of every two Americans have fallen into poverty or are classified as low income ([article](#)).

Why Preservation is a Key Affordable Housing Strategy

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- **Growing Need:** “Worst case housing needs” grew by nearly 1.2 million households, or more than 20 percent, from 2007 to 2009 and by 42 percent since 2001.
- **Loss of Stock:** Over the last 10 years, for every 3 new affordable housing units built in the U.S., we have lost 2 affordable units.
- **Cost Effective:** Rehabilitating an existing affordable apartment can cost one-third less than building a new apartment. In more expensive communities with high land costs, the cost of building new affordable housing could be as much as double the cost of preserving existing housing ([article](#)).

Topic 2.3: Current Challenges and Benefits

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Activity: Owner Challenges and Potential Benefits

Generate lists of challenges and benefits

Instructions: Within your group, generate a list of as many challenges as possible that are making it difficult for property owners to continue to provide affordable housing.

Then, generate a separate list of the potential benefits property owners can realize by preserving their affordable rental units.



Key Challenges Identified by HUD

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- **Aging properties:** Properties were built up to 40 years ago and need accessibility upgrades, structural issues, green/energy efficiency improvements.
- **Obsolete housing:** Older properties were built with small studios or efficiency units that are hard to market; properties have vacancies that are hard to fill.
- **Increasing costs of management and compliance:** HUD requirements can be onerous and expenses have grown over time.
- **Financing:** The economy makes it hard to find financing to make project improvements.
- **Complexity:** Doing preservation transactions (refis, acquisitions) is complex and require training.

Key Benefits Associated with Preservation

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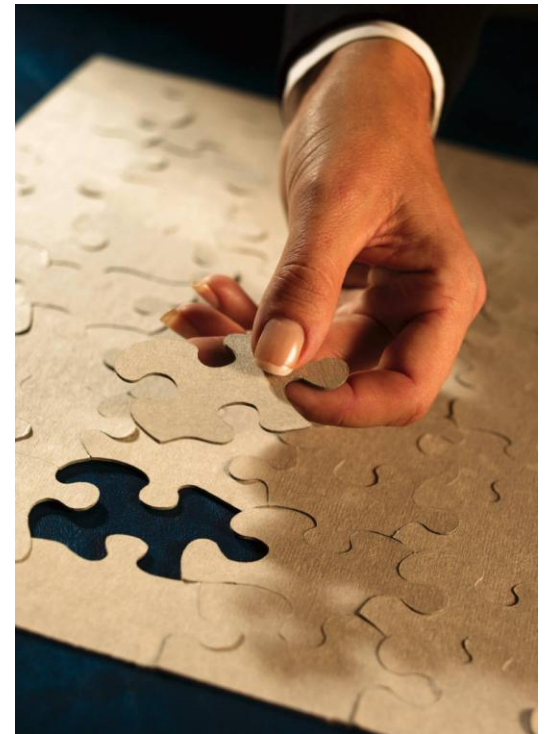
- **Stable project income:** Projects that are preserved as affordable housing are able to lock in long-term rental subsidies that provide a stable source of rental income, and a waiting list of potential tenants.
- **Better cash flow:** Projects that refinance with today's low interest rates can reduce debt service costs and improve cash flow.
- **Owner equity and cash distributions:** Owners can often tap into the increased equity of a project when the project is refinanced, helping bring income to the organization. Owners may also receive increased year-end distributions from a project.
- **Low default rates:** When owners preserve their properties with lower interest loans, there is less risk of defaulting on the loan.
- **New incentives and flexibilities:** HUD has new programs to provide increased flexibilities to owners working to preserve housing as affordable.

Topic 2.4: Preservation Challenges and Potential Solutions

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Note: The potential solutions presented in this topic are not mutually exclusive.

They are meant to serve as examples to demonstrate that there are several options available to preserve affordable multifamily housing.



Preservation Challenges and Potential Solutions

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Challenge

Many 202, 236 and 221(d)(3) mortgages are maturing and affordability restrictions are expiring.

Potential Solution 1

Prepay the existing mortgage and refinance using FHA multifamily mortgage insurance , a conventional loan, and/or Low Income Housing Tax Credit equity or other financing. □

Potential Solution 2

Participate in the Mark-Up-To-Budget program and make repairs.

Preservation Challenges and Potential Solutions (continued)

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Challenge

Expiring Section 8 contract

Potential Solution 1

Request a rent increase using the HUD Mark-up-to-Market Program or the Mark-up-to-Budget program for capital repairs.

Potential Solution 2

Execute a 20-year Section 8 rental assistance contract, which helps attract lenders and investors to the property.

Preservation Challenges and Potential Solutions (continued)

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Challenge

Expiring Rent Supplement and RAP Contracts

Potential Solution 1

Extend the expiring contract at current rents for up to 12 months.

Potential Solution 2

Participate in the Rental Assistance Demonstration and convert the tenant vouchers to Project-Based Vouchers for a 15-year contract.

Potential Solution 3

Tenants in units covered by these contracts may receive housing vouchers when the contracts expire.

Preservation Challenges and Potential Solutions (continued)

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Challenge

Loss of properties due to the need for repairs

Potential Solution 1

Refinance or secure Low Income Housing Tax Credit equity to make project repairs.

Potential Solution 2

If housing is truly uninhabitable, transfer Section 8 assistance to another property.

Preservation Challenges and Potential Solutions (continued)

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Challenge

Obsolete housing is not marketable and the property is not able to make ends meet.

Potential Solution

Convert units from efficiencies or studios to one-bedroom units to reduce vacancies.

Preservation Challenges and Potential Solutions (continued)

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Challenge

Unassisted project residents need additional subsidy.

Potential Solution 1

Unassisted residents may receive Tenant Protection Vouchers when the mortgage is prepaid.

Potential Solution 2

Section 202 projects may receive Senior Preservation Rental Assistance Contracts to provide subsidy to unassisted residents.

Preservation Challenges and Potential Solutions (continued)

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Challenge

Property owner needs funds for other purposes and wants to sell the property to raise funds.

Potential Solution 1

New flexibility for nonprofit owners of Section 236, Section 221(d)(3) or other HUD-insured projects to sell properties to purchasers who will commit to maintain the project as affordable housing – and the seller will retain all the proceeds from the sale.

Potential Solution 2

Owners may also be able to get equity out of a project in the form of a developer fee when they refinance.

Preservation Challenges and Potential Solutions (continued)

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Challenge

Owner lacks ability, capacity or interest to maintain ownership of the property.

Potential Solution

Owners have incentives to sell properties to nonprofits or other purchasers who will maintain affordability.

Review Question 1

51

1. Why is affordable multifamily housing important? (Circle all that apply.)
 - a. It is important to the economic vitality of the larger community.
 - b. It is a key component of smart growth strategies.
 - c. It increases the demand for construction materials and other durable goods which, in turn, helps bolster the economy.
 - d. It meets the housing needs of a range of different types of households.
 - e. All of the above

Review Question 1

52

1. Why is affordable multifamily housing important? (Circle all that apply.)
 - a. It is important to the economic vitality of the larger community.
 - b. It is a key component of smart growth strategies.
 - c. It increases the demand for construction materials and other durable goods which, in turn, helps bolster the economy.
 - d. It meets the housing needs of a range of different types of households.
 - e. **All of the above**

Review Question 2

53

1. What statement accurately summarizes the net change in the number of affordable housing units during the past 10 years in the United States?
 - a. For every 2 new affordable housing units built, we have lost 3.
 - b. For every 3 new affordable housing units built, we have lost 2.
 - c. For every 3 new affordable housing units built, we have lost 1.
 - d. For every new affordable housing unit built, we have gained another.

Review Question 2

54

1. What statement accurately summarizes the net change in the number of affordable housing units during the past 10 years in the United States?
 - a. For every 2 new affordable housing units built, we have lost 3.
 - b. For every 3 new affordable housing units built, we have lost 2.**
 - c. For every 3 new affordable housing units built, we have lost 1.
 - d. For every new affordable housing unit built, we have gained another.

Review Question 3

55

1. Which of the following are key benefits associated with preserving affordable multifamily housing? (Circle all that apply.)
 - a. Improved cash flow due to low interest rates.
 - b. Decreasing costs of management and compliance.
 - c. Increases in owner equity and cash distributions.
 - d. Stable project income.

Review Question 3

56

1. Which of the following are key benefits associated with preserving affordable multifamily housing? (Circle all that apply.)
 - a. Improved cash flow due to low interest rates.**
 - b. Decreasing costs of management and compliance.
 - c. Increases in owner equity and cash distributions.**
 - d. Stable project income.**

Review: Lesson 2 Objectives

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- Explain the importance of keeping affordable rental housing available to people who need it.
- Identify challenges and potential benefits to keeping your partners' multifamily property available to low-income or elderly citizens.
- Recognize potential solutions to challenges your partners are facing preserving affordable multifamily housing properties.

Lesson 3: 236 Prepayment Requirements

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Lesson 3: Objectives

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- Recognize potential benefits associated with mortgage prepayment and refinance of certain HUD properties including Section 236 and Section 221(d)(3) BMIRs.
- Identify Section 250 provisions that may apply to properties and their impact on repaying or prepaying mortgages.
- Identify Section 219 provisions that may apply to properties and their impact on repaying or prepaying mortgages.

Lesson 3: Objectives (continued)

60

- Outline the process for requesting prepayment approval and timing considerations.
- Recognize that prepaying a mortgage can serve as a means to preserve affordable housing.

Topic 3.1: Prepayment Situations and Benefits

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Prepayment Situations and Benefits

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In terms of preserving and sustaining affordable housing:

- What types of situations could lead an owner to seek to prepay their existing mortgage?
- What are some potential benefits of prepaying an existing mortgage?



Why Prepay?

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- Replace systems, reconfigure units, improve amenities, or enhance services.
- Replace high interest debt and re-amortize to support additional debt.
- Historically low interest rates, good tax credit pricing, and new flexibilities and financial incentives.
- In certain cases, prepayment of a mortgage triggers tenant protection vouchers for project residents.



Topic 3.2: Prepayments Subject to Section 250 of the National Housing Act

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**Can you prepay
without HUD
approval?**

No

**Section 250(a)
Applies**

Determining Prepayment Requirements

65

- This topic and the next provide guidelines for types of properties that are subject to Section 250 and Section 219.
- To determine or confirm these and any other prepayment requirement associated with the properties, it is a recommended practice to **check the project's mortgage note**.
- Look for language and prepayment requirements within the note.
- Owners are advised to check with HUD to determine the best course of action.



Section 250

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- The surest way to determine if the mortgage requires HUD approval for prepayment is to look at the original mortgage note which states clearly if approval of the Secretary of HUD is required.
- Notice H2006-11 provides guidance on process for Section 250(a) prepayments.



Types of Section 250(a) Properties

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- Some Section 236 and Section 221(d)(3) mortgages.
- Some properties with Rent Supplement contracts.
- Typically, nonprofit-owned projects require HUD approval to prepay and are required to comply with Section 250(a).
- Some projects owned by profit motivated owners are also required to comply - look at mortgage note to determine.

Notice H 2006-11 Prepayment Request Requirements Under Section 250(a)

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- Must notify tenants of the request for prepayment approval via a letter at least 150 days prior to the request.
- After the tenant notification is filed, tenants have an opportunity to comment on the prepayment. The comments are submitted with the prepayment application for HUD review.
- Must provide a copy of the tenant notification letter to the HUD field office with a signed certification that it has been delivered to the tenants.

Notice H 2006-11 Prepayment Request Requirements Under Section 250(a)

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- If the prepayment is being made to refinance and complete a rehabilitation of the property, the proposal must include a detailed description of the planned rehabilitation.
- The owner must execute an appropriate Use Agreement.

The Use Agreement ensures the property will be maintained as rental housing for low-income families for at least the original mortgage note term, and potentially beyond.

HUD Process for Evaluating Prepayments

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1. The lender submits a request to HUD Headquarters (9807 form).
2. Owner completes the tenant notification requirements which have the 150 days timing requirement.
3. HUD Headquarters requests documents from the field office to process the prepayment.
4. The field office reviews to make sure the owner complied with all the requirements.
5. The field office completes a prepayment checklist and submits it and the required documents to HUD Headquarters.

HUD Process for Evaluating Prepayments (continued)

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6. The Office of Asset Management completes the processing of the prepayment.
7. HUD Headquarters works with the field to address any outstanding questions and to issue a "terms and conditions sheet."
8. Lender is informed of approval of prepayment; Headquarters also informs field office.

Note: For Section 236 projects, the project must not owe HUD any excess income and must have submitted all required monthly Excess Income Reports. This could result in an automatic denial of the owner's request to prepay the mortgage loan. The HUD Field Office(s) can verify that projects have submitted all required Excess Income Reports.

Documents Required for a Prepayment Request

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- ✓ Regulatory Agreement
- ✓ Mortgage Note
- ✓ Use Agreements, if applicable
- ✓ Original Section 8 HAP, Rent Supplement, or Rental Assistance Payments (RAP) contract
- ✓ Flexible Subsidy loan documents, if applicable
- ✓ Deed of Trust

Section 250(a) Property Rehabilitation Requirements

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**Total Hard Costs >
\$15,000 / Unit**

OR

**Includes replacement
or modernization of at
least one major system**

OR

**Total Hard Costs >=
25% of Total
Development Cost**



Topic 3.3: Prepayments Subject to Section 219

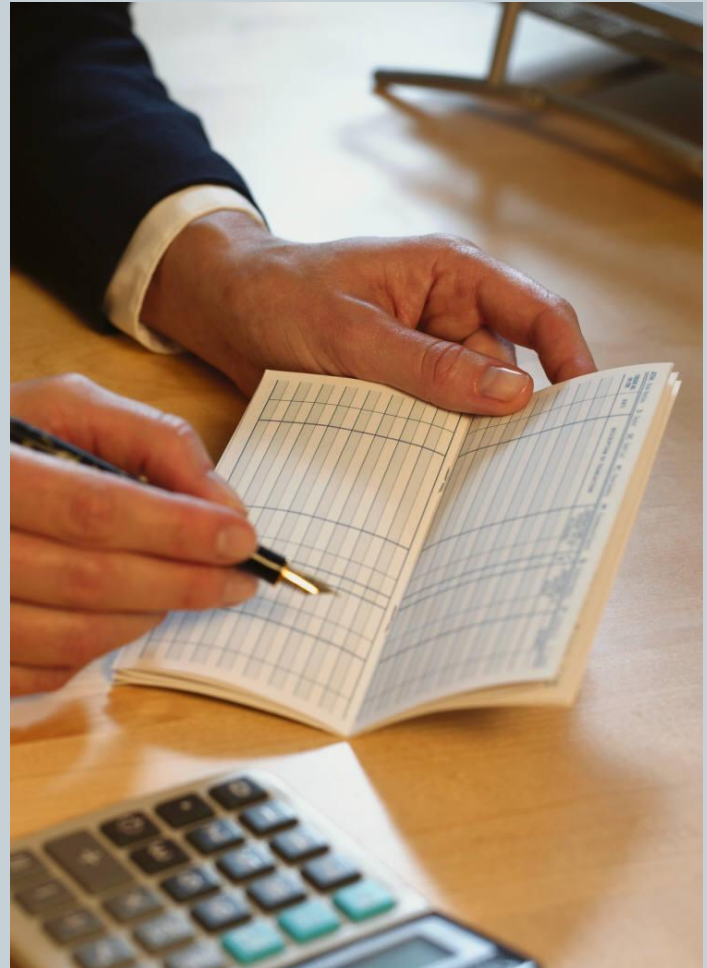
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Does Section 219 Apply?

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- Section 219 applies to mortgage loans that can be prepaid without HUD approval, or will be eligible for prepayment by right within the next two years.



Section 219 Prepayment Requirements

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Though technically the owner may prepay without HUD approval as required under Section 250(a), Section 219 does impose important requirements.

Section 219 requires owners to:

- Provide 150-day prepayment notice to tenants, local government and HUD, *OR*
- Record an extended use agreement for the property to operate at the same affordability restrictions up to the original maturity date of the mortgage, if appropriate notice has not been delivered.

Section 219 Project Types

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The following project types should always be evaluated to determine if they are subject to Section 219 rules:

- 221(d)(3) projects receiving project-based Section 8 as a result of conversion from Rent Supp
- 221(d)(3) Below Market Interest Rate (BMIR) projects
- FHA-insured Section 236 projects

Reminder: You should always check the project's mortgage note, Use Agreement, and Regulatory agreement for prepayment language and requirements.

Importance of 150-Day Notice

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- Owners provide a prepayment notice to tenants, local government and HUD.
- 150-day notice expires 270 days after it is delivered to HUD.
- If closing is delayed beyond 270 days, the 150-day notice must be delivered again.



Use of Proceeds from the Sale of a Project by a Nonprofit Owner

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- HUD recently issued guidance (2011-31) that provides new flexibilities to nonprofit owners of Section 236, Section 221(d)(3) and other FHA insured properties who prepay mortgages under Section 250 or 219 and sell their properties to another owner.
- If the nonprofit sells to a purchaser who has experience successfully owning and operating affordable rental housing, and the purchaser will sign a 20-year Use Agreement and 20-year Section 8 contract renewal, the seller can receive 100% of the net proceeds from the sale.
- This is an incentive to help nonprofits sell properties and safeguard them as affordable housing before they mature and lose their affordability restrictions.

Hypothetical Property A

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- The mortgage is HUD-insured under Section 221 (d) (3) Below Market Interest Rate.
- The property units receive Section 8 Housing Assistance Payments for 100% of the units.
- The mortgage does not have a prepayment restriction requiring HUD approval.
- The owner chooses to prepay the mortgage prior to maturity of the mortgage.



Must the owner comply with Section 250(a), Section 219 or neither?

Hypothetical Property B

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- The mortgage is HUD-insured under Section 236.
- The property units receive Section 8 Housing Assistance Payments for 100% of the units.
- The mortgage has a prepayment restriction requiring HUD approval.
- The owner wants to prepay the mortgage prior to maturity of the mortgage.



Must the owner comply with Section 250(a), Section 219 or neither?

Case Study: Prepayment of a Section 236 Mortgage

Evaluate a property with an existing Section 236 mortgage from the perspective of the seller and the potential buyer.

Instructions: In your group, read through the case study.

- Discuss and propose answers to the discussion questions.
- Prepare to share your group's answers and ideas regarding the case study with the instructor and class.



Section 236 Prepayment Case Study

Discussion Questions

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1. What actions must the seller perform to ensure that they comply with the applicable HUD policies and prepay the existing mortgage? If the current owner does not perform these actions, what ramifications are likely to occur?
2. What due diligence should the buyer conduct in assessing whether it would be beneficial to purchase the apartments from a financial standpoint?
3. What are the pros and cons involved in purchasing a partially Section 8 assisted project? If you were the new property owner what action would you take related to the existing Section 8 contract for this apartment complex expiring on May 31, 2012?
4. What methods and scenarios should be employed to evaluate proposed future revenue, expenses and return on investments?



Review Question 1

84

1. Which of the following is **NOT** a Prepayment Request requirement under Section 250(a)?
 - a. Must notify tenants of the request for prepayment approval via a letter at least 30 days prior to the request.
 - b. Must provide a copy of the tenant notification letter to the HUD field office with a signed certification that it has been delivered to the tenants.
 - c. The owner must execute an appropriate Use Agreement.
 - d. If the prepayment is being made to refinance and complete a rehabilitation of the property, the proposal must include a detailed description of the planned rehabilitation.

Review Question 1

85

1. Which of the following is **NOT** a Prepayment Request requirement under Section 250(a)?
 - a. **Must notify tenants of the request for prepayment approval via a letter at least 30 days prior to the request.**
 - b. Must provide a copy of the tenant notification letter to the HUD field office with a signed certification that it has been delivered to the tenants.
 - c. The owner must execute an appropriate Use Agreement.
 - d. If the prepayment is being made to refinance and complete a rehabilitation of the property, the proposal must include a detailed description of the planned rehabilitation.

Review Question 2

86

1. Which of the following types of mortgages allows the owner to prepay **without** HUD approval as required under Section 250(a)?
 - a. Properties subject to Section 219
 - b. Section 221(d)(3)
 - c. Section 236
 - d. Some properties with Rent Supplement contracts

Review Question 2

87

1. Which of the following types of mortgages allows the owner to prepay **without** HUD approval as required under Section 250(a)?
 - a. **Properties subject to Section 219**
 - b. Section 221(d)(3)
 - c. Section 236
 - d. Some properties with Rent Supplement contracts

Review: Lesson 3 Objectives

88

- Recognize potential benefits associated with mortgage prepayment and refinance of certain HUD properties including Section 236 and Section 221(d)(3) BMIRs.
- Identify Section 250 provisions that may apply to properties and their impact on repaying or prepaying mortgages.
- Identify Section 219 provisions that may apply to properties and their impact on repaying or prepaying mortgages.

Review Lesson 3 Objectives (continued)

89

- Outline the process for requesting prepayment approval and timing considerations.
- Recognize that prepaying a mortgage can serve as a means to preserve affordable housing.

Lesson 4: Tools for Preservation of FHA-Insured Properties

90



Lesson 4: Objectives

91

- Analyze the risks and benefits of recapitalization associated with the Section 236 Decoupling process.
- Explore the benefits and possibility of deferring the repayment of Flexible Subsidy loans, and the process for requesting a deferral.
- Analyze the requirements, incentives, and tools associated with converting efficiency units into one-bedroom units.

Topic 4.1: Section 236 Decoupling

92



Section 236 Decoupling

Section 236 Overview

93

- Section 236 of the National Housing Act of 1968 authorized below-market interest rate insured loans to private builders who agreed to develop affordable units reserved for low-income families and seniors.
- The program lowered the loan's interest rate to 1%. The difference between a market rate mortgage and the 1% mortgage is called an Interest Reduction Payment (IRP).



Section 236 Overview (continued)

94

- The IRP funds were allocated at the time the mortgage was approved, creating a revenue source available to the project for the entire term of the mortgage.
- Many Section 236 properties needed to be refinanced and rehabilitated but the IRP and underlying mortgages reduced the flexibility to transfer or refinance the property.
- Congress adopted legislation authorizing the continuation of IRP payments even when the related mortgage is refinanced – known as “decoupling.”

Section 236 Decoupling

95

- Decoupling is when the Section 236 mortgage is prepaid and refinanced. The IRP assistance is severed from the original Section 236 mortgage and applied to the new financing.
- It provides an additional source of funds for rehabilitation and preservation of affordable projects, without any additional cost to the Federal government.
- The result of decoupling can be a win-win for both owners and the residents of these properties.



Section 236 Decoupling (continued)

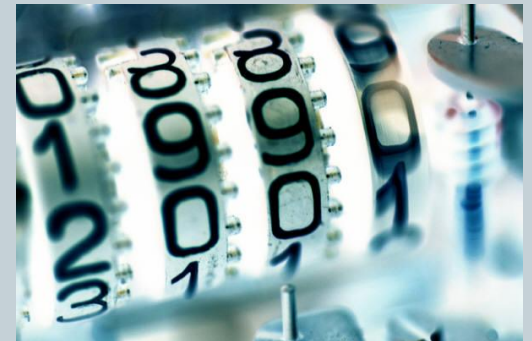
96

- **Eligibility:** Any Section 236 property (including Section 236 elderly properties) can submit a proposal to HUD. Typically, the IRP decoupling proposal is submitted concurrently with a request to prepay the Section 236 mortgage.
- **Mortgagee:** Any mortgagee may qualify if a public agency agrees to monitor the use agreement; if no public agency will monitor the use agreement, then they must use FHA insurance from a HUD approved lender and HUD will monitor the use agreement.
- **Term and Amount:** Per the remainder of the IRP schedule. However, owners can also choose to reduce the annual subsidy and extend the IRP schedule.

Section 236 Decoupling (continued)

97

- Subject to mortgagee and HUD approval, the owner may elect to reduce the monthly and annual payment and extend the IRP contract term.
- The owner can prepay the mortgage, process a decoupling, and continue to receive the IRP payments, resulting in a major cash flow benefit to the project. For example, an owner can refinance and reduce the existing debt service cost, while continuing to receive the IRP.
- In no event will the remaining IRP subsidy be paid out as a lump sum.



Section 236 Decoupling Rents

98

- On the Section 8 assisted units, budget based rents are allowed to cover operating costs, including the new debt service.
- Rents are capped at comparable market rent less the IRP subsidy.
- On the unassisted units, rent increases for tenants may not exceed 10% without an appeal to HUD.



Section 236 Decoupling Distributions

99

- Annual distributions range from 6% (senior) to 10% (family) of the new equity from Low Income Housing Tax Credits or other owner sources.

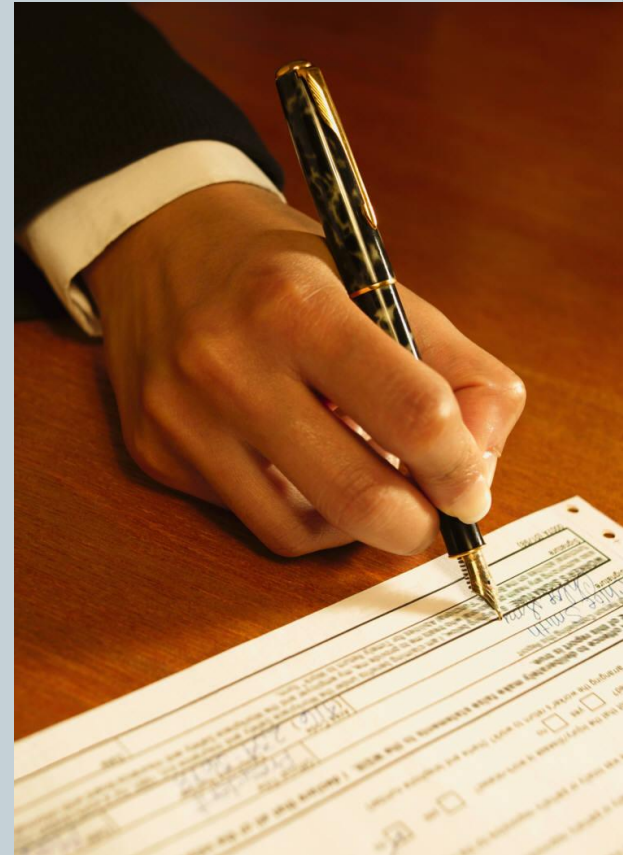


Section 236 Decoupling Use Agreement

100

Must maintain Section 236 occupancy and income restrictions:

- Tenants earn less than 80% of median and pay affordable rents until at least 5 years after the original maturity date of the mortgage.
- No involuntary displacement.
- If the owner retains project-based Section 8, then the Section 8 stays in place for the balance of the use agreement. If the owner opts out of Section 8, tenants are eligible for enhanced vouchers.



TPVs for 236 Decoupling Transactions

101

- In cases where HUD pre-payment permission is NOT required, HUD will issue Tenant Protection Vouchers (TPVs) to those qualified residents residing in non-Section 8 units.
- Not available to non-profit owned 236 projects
- Not available unless the owner pre-pays
- Lesson 8 will discuss TPV's in more detail

**Case Study:
Recapitalizing
Using Section
236 Decoupling
vs.
Conventional
Refinancing**

Analyze the risks and benefits of Decoupling versus Conventional refinancing.

Instructions: In your group, read through the Case Study.

- Discuss and propose answers to the Discussion Questions.
- Prepare to share your group's answers and ideas regarding the Case Study with the instructor and class.



Example 1 - 236 DECOUPLING WITH A NEW FHA 221d4 LOAN

- 5.5% Interest rate, FHA 221d4, 40 year term, 1.15 DCR
- IRP Decoupling
- Rents increased to market
- Enhanced vouchers for non Section 8 units

Sources	Budget	Per unit
Equity (5% OF LOAN)	\$308,138.35	\$2,054.26
First Mortgage	\$6,162,767.00	\$41,085.11
IRP	\$911,902.00	\$6,079.35
TOTAL SOURCES	\$7,382,807.35	\$49,218.72
Uses		
Acquisition (Loan-payoff)	\$1,350,000.00	\$9,000.00
Construction	\$5,256,314.52	\$35,042.10
Architectural	\$143,481.00	\$956.54
Professional Services and Fees	\$102,316.00	\$682.11
Financing Fees	\$184,883.01	\$1,232.55
Legal	\$50,000.00	\$333.33
Carrying Costs	\$295,812.82	\$1,972.09
TOTAL USES	\$7,382,807.35	\$49,218.72

Example 2 – NO DECOUPLING, CONVENTIONAL LOAN

- 4.5% interest rate, conventional loan, 30-year term, 1.20 DCR
- Rent increased to market
- Enhanced vouchers for non Section 8 units

	Budget	Per unit
Equity (5% OF LOAN)	\$259,173.95	\$1,727.83
First Mortgage	\$5,183,479.00	\$34,556.53
IRP	\$-	\$-
	\$5,442,652.95	\$36,284.35
Acquisition (Loan-payoff)	\$1,350,000.00	\$9,000.00
Construction	\$2,945,151.95	\$19,634.35
Architectural	\$143,481.00	\$956.54
Professional Services and Fees	\$198,896.00	\$1,325.97
Financing Fees	\$224,587.00	\$1,497.25
Legal	\$10,000.00	\$66.67
Carrying Costs	\$570,537.00	\$3,803.58
	\$5,442,652.95	\$36,284.35

Section 236 Decoupling Case Study

Discussion Questions

105

1. What are the advantages of undertaking the decoupling?
2. What are the trade offs?
3. What risks will the owner be taking on by doing the decoupling?
4. What are the advantages of pursuing the conventional refinancing option?
5. Would it make a difference in deciding how to proceed if the mortgage was to mature in 2015 instead of 2017?



Topic 4.2: Flexible Subsidy Loan Deferral

106



Events that Require Flex Sub Loan Repayment

107

Many HUD projects, including Section 202 and Section 236 properties, also have secondary loans called flexible subsidy. The flexible subsidy loan must be repaid when the following occurs:

- Prepayment of mortgage
- Mortgage expiration
- Mortgage insurance termination
- Sale of project

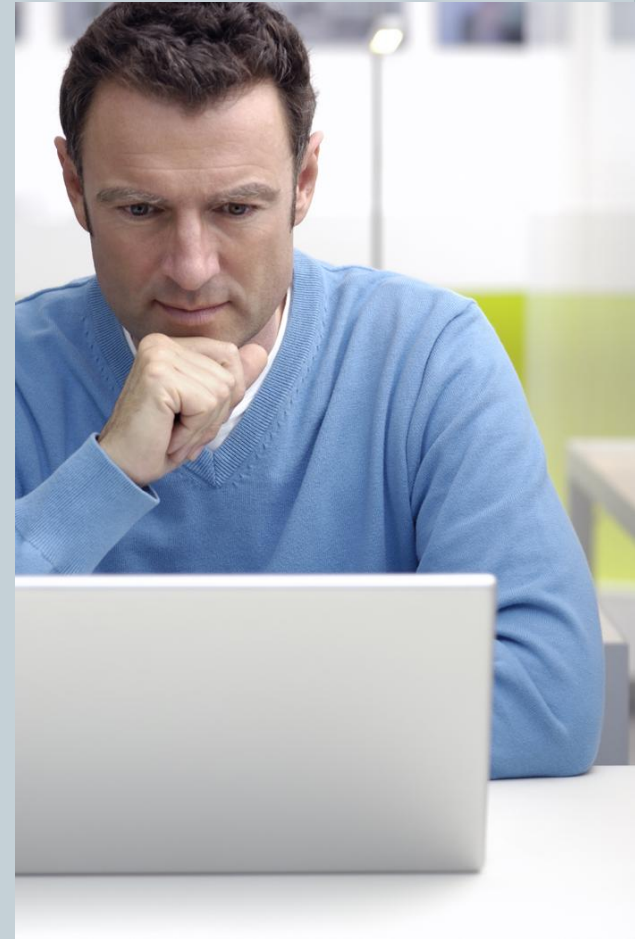
The repayment requirement can cause difficulty when an owner is putting together an application to prepay and refinance a loan; the cost of paying off the full Flexible Subsidy loan and accrued interest adds cost to the transaction.



Owner May Request Repayment Deferral

108

- The owner may request to defer repayment of the flexible subsidy operating loan; typically this is done in conjunction with a request for prepayment of the primary HUD loan (i.e. a Section 236 or Section 202 loan).
- HUD may allow repayment deferral if the owner can demonstrate that recapitalization is necessary and that there are inadequate resources to pay the flexible subsidy loan in full.
- Capital loans, under statute, cannot be deferred.



Rules for Deferring Flex Sub Loan Repayment

109

- On Feb 14, 2011, HUD issued [Notice H 2011-05](#). HUD recently issued notice [Notice H 2012-04](#), which extends Notice H 2011-05 through March 2013.
- Authorizes owners to receive a waiver from the FHA Commissioner to defer repayment of a Flex Sub loan.
- Makes refinancing more affordable because it allows the owner to defer the prepayment of the flex sub loan and instead re-amortize the flex sub loan for the term of the new loan.

Flex Sub Loan Repayment Deferral Requirements

110

- ✓ A passing score on a Real Estate Assessment Center (REAC) physical inspection.
- ✓ Compliance with fair housing and civil rights laws.
- ✓ Satisfactory Management and Occupancy Review for the prior three years.
- ✓ Compliant with audited financial statement filings.
- ✓ Mortgage kept current over prior three years.
- ✓ No outstanding defaults or violations.
- ✓ Enter into a 20-year Extended Use Agreement.
- ✓ Apply all available Residual Receipts and all Reserve for Replacements in excess of \$1,000 per unit to the Flexible Subsidy loan balance.
- ✓ Present a case to demonstrate how deferring payment will benefit the project.

Flex Sub Deferral Proposal

111

The owner's proposal shall provide the following information:

- A copy of the current year's budget, most recent interim financial statement, and the last three fiscal years of audited financial statements.
- Projections for 10 years post closing of the Flexible Subsidy Loan that detail trending assumptions and any changes in operations that result in deviations from historical results.
- A Sources and Uses Statement for the transaction and a Pro-forma Operating Statement demonstrating that all funds received in conjunction with the Flex Repayment Event will be used for project purposes.

Flex Sub Deferral Proposal (continued)

112

- Evidence of the attempts made to secure loans or grants to repay the Flexible Subsidy obligation. For example, the owner may apply for grants from the Federal Home Loan Bank.
- A written statement agreeing to comply with each of the requirements listed.
- A description of how the property is providing and will continue to provide needed affordable housing and any additional information needed to support the deferral request.
- The Owner will submit the request to the Multifamily project manager in the HUD field office. The field office will review and submit a request to HUD Headquarters for a waiver of the requirement for the flexible subsidy loan to be paid in full at the time of the prepayment.

Case Study: Qualifying for Deferral of Flexible Subsidy Loans

Explore the possibility of deferring a Flexible Subsidy loan.

Instructions: In your group, read through the Case Study.

- Discuss and propose answers to the Discussion Questions.
- Based on your discussions and answers to the discussion questions, fill in the table in the Conclusions section.
- Prepare to share your group's answers and ideas regarding the Case Study with the instructor and class.



Flexible Subsidy Loan Deferral Case Study

Opportunities or Decision Points

114

- What are some of the short-term and long-term challenging characteristics of the property?
- What are some of the possible external forces that led to the condition of the property?
- What options should the owner consider, given the challenges facing the property?



Flexible Subsidy Loan Deferral Case Study Implications

115

- How will the tenants be affected by the requirement to prepay the Flex Sub loan?



Flexible Subsidy Loan Deferral Case Study

Discussion Questions

116

- If the owner is unable to obtain the Flex sub loan deferment, what other options should they consider?
- If you were the property owner and determined that you could not obtain the Flex Sub loan deferment, what would you do?



References: Deferred Repayment of Flexible Subsidy Loans

117

Preserving Multifamily Properties page on HUD website:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/presrv/presmfh.

- [Deferral of Flexible Subsidy Loan - Notice H 2011-5.pdf](#)

Topic 4.3: Converting Efficiency Units into One-Bedroom Units

118



Conversion of Efficiency Units to One-Bedroom Units

119

- Many older HUD properties such as Section 202s, 236s or 221(d)(3)s, or properties with a Section 8 contract but no HUD mortgage, have units that are obsolete. The units are studios or efficiency apartments that are difficult to market.
- Vacancies hurt the cash flow to a project.
- HUD Notice H 2011-03 sets policies and procedures for converting efficiency units to one-bedroom units for certain types of HUD-assisted and/or insured properties.

Conversion Requirements

120

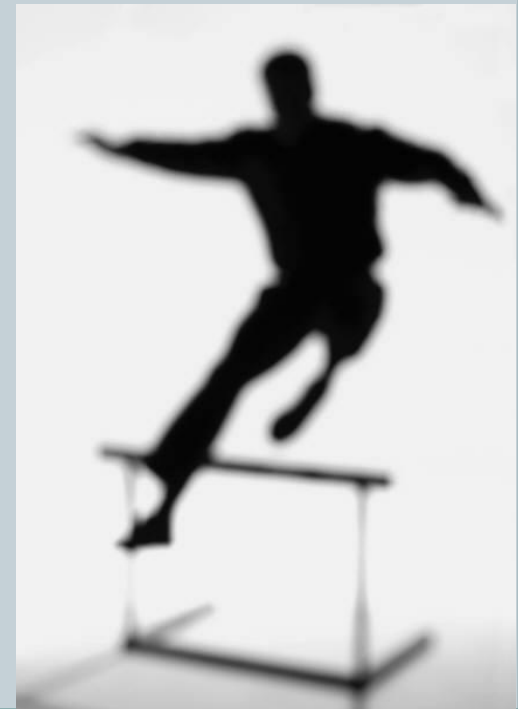
In general, owners who want to convert efficiency units to one-bedroom units must meet the following requirements:

- Be in compliance with all business agreements.
- Provide evidence of all efforts to market the units proposed for conversion.
- The average vacancy rate in efficiency units is at least 25% for at least 24 months.
- If conversion is part of a refinance, the debt service coverage ratio must be 1.1 or greater.
- Conversion must only involve units of the same subsidy type.

Additional Conversion Requirements

121

- Demand in the geographic market area for the proposed conversion.
- The conversion will not result in an increase in the amount of existing budget authority available to the project.
- The conversion must not result in any violation of Section 504 of the Rehabilitation Act of 1973.
- Notification requirements of residents and a certification that there will be no permanent displacement of residents.
- Consent of lender required.



Activity: Unit Conversions (HUD Notice 2011-03) Efficiencies to One-Bedroom Units

Determine if example properties will qualify for conversions from efficiencies to one-bedroom apartments.

Instructions

Review the examples to:

- Determine if the properties qualify.
- Briefly explain your determinations.



Review Question 1

123

1. What is the main benefit to owners of Section 236 properties who are able to accomplish a successful Section 236 Decoupling transaction?
 - a. They are released from the responsibility of repaying any subordinate loans against the property.
 - b. They are able to reduce debt service cost while continuing to receive the Interest Reduction Payment associated with the original loan.
 - c. They are able to receive annual rent increases for the term of the new loan when they refinance the existing loan.
 - d. In lieu of the Interest Reduction Payment, they are able to execute a new Section 8 contract that provides long-term income stability to the project.

Review Question 1

124

1. What is the main benefit to owners of Section 236 properties who are able to accomplish a successful Section 236 Decoupling transaction?
 - a. They are released from the responsibility of repaying any subordinate loans against the property.
 - b. They are able to reduce debt service cost while continuing to receive the Interest Reduction Payment associated with the original loan.**
 - c. They are able to receive annual rent increases for the term of the new loan when they refinance the existing loan.
 - d. In lieu of the Interest Reduction Payment, they are able to execute a new Section 8 contract that provides long-term income stability to the project.

Review Question 2

125

2. What must the owner of a project with a subordinate Flexible Subsidy loan demonstrate in order for HUD to be able to defer the repayment of the flexible subsidy loan? (Circle all that apply.)
- a. There are insufficient resources to pay off the Flexible Subsidy loan in full
 - b. Increasing tenant rents in the project enough to raise the capital required to repay the Flexible Subsidy loan would result in a significant reduction in the occupancy rate
 - c. The payments they are currently making on the Flexible Subsidy loan is the reason they have fallen at least one month behind on the existing mortgage note
 - d. The recapitalization that will result from the associated refinancing transaction is necessary to preserve the property

Review Question 2

126

2. What must the owner of a project with a subordinate Flexible Subsidy loan demonstrate in order for HUD to be able to defer the repayment of the flexible subsidy loan? (Circle all that apply.)
- a. **There are insufficient resources to pay off the Flexible Subsidy loan in full**
 - b. Increasing tenant rents in the project enough to raise the capital required to repay the Flexible Subsidy loan would result in a significant reduction in the occupancy rate
 - c. The payments they are currently making on the Flexible Subsidy loan is the reason they have fallen at least one month behind on the existing mortgage note
 - d. **The recapitalization that will result from the associated refinancing transaction is necessary to preserve the property**

Review: Lesson 4 Objectives

127

- Analyze the risks and benefits of recapitalization associated with the Section 236 Decoupling process.
- Explore the benefits and possibility of deferring the repayment of Flexible Subsidy loans.
- Analyze the requirements, incentives, and tools associated with converting efficiency units into one-bedroom units.

Lesson 5: Preservation of Section 202 Supportive Housing for the Elderly

128



Lesson 5: Objectives

129

- Give examples of Section 202 Direct Loan Preservation issues and considerations.
- Identify Section 202 provisions that may apply to properties and their impact on repaying or prepaying mortgages.
- Accurately interpret Section 811 of The American Homeownership and Economic Opportunity Act of 2000 to determine its applicability to properties.
- Recognize properties that are likely to benefit as a result of successful subordination of 202 Direct Loans.
- Accurately identify the provisions contained within the Section 202 Supportive Housing for the Elderly Act of 2010 and how the owner's property may benefit from these provisions.

Topic 5.1: Section 202 Direct Loan Preservation Issues

130



Arthur Capper Senior Housing Washington, D.C.

Section 202 Direct Loan Program Overview

131

- The 202 Direct Loan program ran from 1959-1990
 - The program had several stages.
 - Projects financed from 1959 to 1974 had below market interest rates (6% or less), little or no rental subsidy and rented to low and moderate income tenants
 - Projects financed from 1975 to 1990 had market interest rates (some very high – above 10%), most had Section 8 assistance on some or all units, and rented to low and very low income tenants.
- Owners were single purpose non-profit entities – many not experienced or capitalized for redevelopment options available today
- Physical needs often necessitate using LIHTCs to generate sufficient proceeds to cover costs

Section 202 Direct Loan Program Overview (continued)

132

- To successfully position a Section 202 property that may be aging, an owner may prepay and refinance the loan, or may choose to partner with another nonprofit organization, or form a tax credit limited partnership to syndicate tax credits and raise equity.
- Other owners may choose to sell the project to a purchaser who will maintain affordability.



Section 202 Direct Loan Program Overview (continued)

133

- If a Section 202 owner wishes to refinance the property, the proceeds from the new financing may be used for project purposes or for the benefit of residents of the project or residents of other HUD assisted senior housing.
- If the owner chooses to sell the property, the owner may use the net proceeds from the sale for project purposes OR for other charitable purposes of the nonprofit.

Topic 5.2: Section 202 Prepayments

134



Section 202 Prepayment Authority

135

- American Homeownership and Economic Opportunity (AHEO) Act of 2000 authorized prepayment of Section 202 Direct Loans.
- HUD Notice H 12-08 published May 7, 2012 provides guidance on all 202 prepayments (supersedes notices 2002-16 and 2010-14).
- 2012-08 implements Supportive Housing for the Elderly Act of 2010.
- HUD notice 2004-21 provides guidelines for underwriting FHA loans to refinance section 202 properties.

Types of Section 202 Prepayments

136

- 1. No Approval Needed:** A small subset of Section 202 projects approved from 1977 to 1982 do not require HUD permission to prepay.
- 2. Refinance to Reduce Interest Rate:** For projects financed between 1975 and 1991, except for those mentioned in #1, above:
 - HUD permission to prepay is required.
 - Owners may prepay and refinance if the refinance involves a lower interest loan and the owner can demonstrate debt service savings for the project.
 - Notice 2012-08 provides guidance on these prepayments.
 - Owners of properties listed under #1 may also opt to prepay under the notice in order to receive an incentive of retaining above-market Section 8 rents.

Types of Section 202 Prepayments

(continued)

137

3. Refinance to Make Repairs Even If No Debt Service Savings Are Anticipated:

- Projects financed prior to 1975 had low-interest loans (below 6%). Even with today's historically low interest rates, these projects are not likely to have lower debt service if they refinance.
- HUD will approve requests to refinance into loans with higher interest rates if the Owner completes substantial rehab on the property – and if funds are available, HUD may make rental assistance available to unassisted residents.

Section 202 Supportive Housing for the Elderly Act of 2010

138

- Section 811 of the AHEO provided general authority for the prepayment of Section 202 mortgages.
- The Supportive Housing for the Elderly Act amends AHEO to update the law governing prepayments for ALL Section 202 properties
- Redefines Private Nonprofit Ownership Entity (continued ownership or control by one or more nonprofits, which may include LIHTC limited partnerships – this facilitates the use of LIHTCs).
- Notice 12-08 implements the new law.

Section 202 Supportive Housing for the Elderly Act of 2010 (continued)

139

New preservation requirements:

- If HUD approval for the prepayment is required, HUD may approve the prepayment but the Owner must execute a use agreement to ensure the continued operation as a Section 202 property at same level of affordability for at least 20 years beyond the original mortgage maturity date.

This is a change from the prior law which just required a Use Agreement through the original maturity date of the 202 loan.

- Owners must comply with tenant notification and tenant comment requirements.

New Flexibilities of Section 202 Supportive Housing for the Elderly Act of 2010

140

- Authorizes subordination or assumption of existing 202 debt (may be subordinated in lieu of a refinance).
- Authorizes waiver of payment of Flexible Subsidy loans (can be assumed).
- Allows new uses of proceeds from the refinance – an owner may use the proceeds for the benefit of existing project residents, to convert units to reduce vacancies, to pay a developer fee, or for the benefit of elderly residents of other HUD-assisted senior housing.

New Flexibilities of Section 202 Supportive Housing for the Elderly Act of 2010 (continued)

141

- Allows expanded use of proceeds to support services for seniors.
- Authorizes owners to receive a Mark-Up-To-Market or, as a nonprofit, Chapter 15 rent increase on the Section 8 units.
- Under the new notice 12-08, in the event of a sale of a 202 project, (as opposed to a refinance), the owner may realize the full amount of the sales proceeds.

Supportive Housing for the Elderly Act of 2010: Key Provisions for Pre-1975 Properties

142

The law makes special provisions for pre-1975 properties with direct loan interest rates of 6% or less:

- Allows for prepayment in order to address physical needs of the property (where no debt service savings is expected).
- The Act specifies that no unassisted elderly residents may be displaced or face rent increases. To prevent displacement of these unassisted tenants, the Act authorizes new project-based rental assistance for non-assisted units - SPRAC.
- If the project does not receive SPRAC assistance, HUD may provide vouchers to the unassisted residents.

**Activity: Section
202 Supportive
Housing for the
Elderly Act of
2010 (HUD
Notice 10-14)**

Identify statements
that do not apply.

Instructions

In small groups:

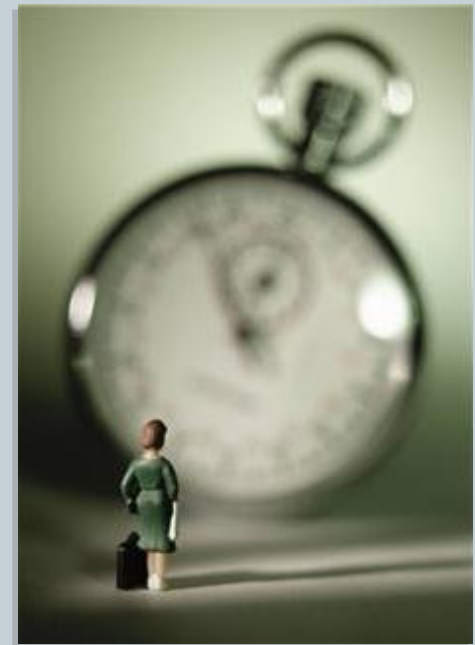
- Review the list of statements.
- Cross out the statements that do not apply to Section 202 Supportive Housing for the Elderly Act of 2010.



Prepayment Approval Process

144

- The Owner applies directly to the field office.
- Approval will go more smoothly if the Owner discusses the prepayment application in detail with HUD prior to submission to make sure you understand the required information.
- Often a prepayment request is in conjunction with other approvals – deferrals of flexible subsidies, for example. Let your HUD project manager know what you are planning.
- The final approval is done at HUD Headquarters.
- Often the prepayment is in conjunction with other financing, so it is important to time the prepayment request accordingly – the process may take several weeks.



FAQ: Notice 2012-08



Hot off the presses!!!

Topic 5.3: Subordination of 202 Direct Loans

146



Subordination of 202 Direct Loans

147

- What is **Subordinated Debt**? Subordinated debt is debt which ranks after other debts should a company fall into liquidation or bankruptcy.

Such debt is referred to as subordinate, because the the lenders have subordinate status in relationship to the normal debt.

- Notice 2010-26 establishes policy and procedures for the review of requests to subordinate Section 202 Direct Loans ONLY in cases where refinancing these loans under Notice H 04-21 (Post-1974 Section 202 Projects) is not feasible.
- Owners with projects with Section 202 Direct Loans that have immediate needs for rehabilitation, significant or emergency repairs, and cannot be paid off using outstanding 202 refinance procedures, may propose a transaction to fund rehabilitation in which the existing 202 debt is subordinated to a new mortgage.

Requirements for Subordination of 202 Direct Loans

148

- Necessary to achieve long term preservation
- Demonstrate that 202 loan and new financing can be repaid
- Owner (or buyer) must be in compliance with HUD 2530 requirements
- Meet ownership requirements of 202 program
- No equity take-out permitted
- Rent increases allowed to cover project costs only
- New Use Agreement for twenty years beyond maturity of 202 required
- 202 loan repayment under flexible terms

Requirements for Subordination of 202 Direct Loans (continued)

149

- Must have over 60 REAC score
- Satisfactory MOR for three cycles
- Must be current on mortgage payment for at least past three years
- No defaults or violations
- Compliant with Fair Housing laws
- No delinquency
- To apply for subordination of a Section 202 Direct Loan, apply to the Hub/Program Center; the Hub/PC will submit a request to HUD Headquarters for review.

Activity: Subordination of 202 Direct Loans

Considerations for
prepayment and
subordination.

Instructions

Working in small groups:

- Read the property description.
- Discuss and explain terms related to the fair-market value, existing loan balance, and rehabilitation costs.



Review Question 1

151

1. Which of the following are valid actions an owner can take to successfully position an aging Section 202 property? (Circle all that apply.)
 - a. Partner with another nonprofit organization
 - b. Prepay and refinance the loan
 - c. Operate the project until the maturity date
 - d. Sell the project to a purchaser who will maintain affordability

Review Question 1

152

1. Which of the following are valid actions an owner can take to successfully position an aging Section 202 property? (Circle all that apply.)
 - a. **Partner with another nonprofit organization**
 - b. **Prepay and refinance the loan**
 - c. Operate the project until the maturity date
 - d. **Sell the project to a purchaser who will maintain affordability**

Review Question 2

153

2. Which of the following is the most accurate description of the subordination of a Section 202 direct loan?
- a. A tool that may prove advantageous to Section 202 owners and developers using Low Income Housing Tax Credits (LIHTC) to do substantial rehabilitation
 - b. A tool that prevents displacement of unassisted tenants via a rent subsidy
 - c. The authorization required to obtain Senior Preservation Rental Assistance Contracts (SPRAC)
 - d. The payoff of a 202 mortgage after providing the required 30-day written notice

Review Question 2

154

2. Which of the following is the most accurate description of the subordination of a Section 202 direct loan?
- a. **A tool that may prove advantageous to Section 202 owners and developers using Low Income Housing Tax Credits (LIHTC) to do substantial rehabilitation**
 - b. A tool that prevents displacement of unassisted tenants via a rent subsidy
 - c. The authorization required to obtain Senior Preservation Rental Assistance Contracts (SPRAC)
 - d. The payoff of a 202 mortgage after providing the required 30-day written notice

Review Question 3

155

3. Which provisions represent new flexibilities included of Section 202 Supportive Housing for the Elderly Act of 2010? (Circle all that apply.)
- a. Authorizes below-market interest rate insured loans to private builders who agree to develop affordable units reserved for low-income families and seniors
 - b. Authorizes owners to receive a Mark up to Market or Chapter 15 rent increase on the Section 8 units
 - c. Authorizes waiver of payment of Flexible Subsidy loans
 - d. Reduces project-based Section 8 subsidized rents that were greater than market level in projects with FHA-insured mortgages

Review Question 3

156

3. Which provisions represent new flexibilities included of Section 202 Supportive Housing for the Elderly Act of 2010? (Circle all that apply.)
- a. Authorizes below-market interest rate insured loans to private builders who agree to develop affordable units reserved for low-income families and seniors
 - b. **Authorizes owners to receive a Mark up to Market or Chapter 15 rent increase on the Section 8 units**
 - c. **Authorizes waiver of payment of Flexible Subsidy loans**
 - d. Reduces project-based Section 8 subsidized rents that were greater than market level in projects with FHA-insured mortgages

Review: Lesson 5 Objectives

157

- Give examples of Section 202 Direct Loan Preservation issues and considerations.
- Identify Section 202 provisions that may apply to properties and their impact on repaying or prepaying mortgages.
- Accurately interpret Section 811 of The American Homeownership and Economic Opportunity Act of 2000 to determine its applicability to properties.
- Recognize properties that are likely to benefit as a result of successful subordination of 202 Direct Loans.
- Accurately identify the provisions contained within the Section 202 Supportive Housing for the Elderly Act of 2010 and how the owner's property may benefit from these provisions.

Lesson 7: Sustaining Affordable Housing via Refinancing and Low Income Housing Tax Credits

158



Lesson 7: Objectives

159

- Identify the steps required to apply for an FHA-insured loan to refinance or rehab your HUD property/properties.
- Identify the property and owner eligibility requirements, and the incentives associated with obtaining federal mortgage insurance via Section 207/223(f) or 221(d)(4).
- Recognize potential benefits that could be achieved through Low Income Housing Tax Credits.

Topic 7.1: Applying for an FHA-insured Loan

160



Applying for an FHA-Insured Loan to Refinance or Rehab Your HUD Property

161

- Loan underwriting for HUD-insured loan programs is performed by HUD-approved lenders under MAP (Multifamily Accelerated Processing).
- The lender works with the owner to underwrite the loan.
- The lender submits application to HUD (field office).
- HUD reviews, approves, and endorses the loan.
- The loan is funded by the MAP lender, but HUD provides the mortgage insurance and pays the claim in the event of default.
- Owners should contact the local HUD office to discuss plans, and obtain advice on the best possible fit for a loan, and contact a MAP lender. The lender drives the loan process.

Topic 7.2: HUD/FHA Multifamily Mortgage Insurance Programs

162

2 MAIN MULTIFAMILY MORTGAGE INSURANCE PROGRAMS:

- Section 207/223(f)
- Section 221(d)(4)



Section 207/223(f) Mortgage Insurance

163

- Purchase or refinance existing multifamily projects
- Projects that do not require substantial rehabilitation may be insured
- Repairs cannot exceed the greater of:
 - \$6,500/unit multiplied by the [high cost factor](#) for the area;
 - 15% of the estimated replacement cost after completion of all repairs, replacements and improvements.
 - Repairs/replacements are also limited to one major building component.

If the above thresholds are exceeded, the loan exceeds the Section 223(f) requirements and fits better as a Section 221(d)(4) substantial rehabilitation transaction.

Section 207/223(f) Mortgage Insurance

(continued)

164

- Minimum of five units
- Construction or substantial rehabilitation must have been completed for at least three years unless a waiver is granted by HUD in limited cases.
- Allows for critical repairs, as determined by:
 - The Project Capital Needs Assessment (PCNA): to be completed prior to closing
 - Non-critical repairs: to be completed within 12 months of closing.

Section 207/223(f) Low Income Housing Tax Credit Pilot

165

- HUD recently published Housing Notice 12-01, which launched the Low Income Housing Tax Credit pilot.
- The pilot uses Section 223(f) to test a new process to streamline and expedite the processing of refinance and acquisition of multifamily properties that use LIHTCs.
- 3 key property types: 1) refinance of assisted housing projects with 90% or more of the units covered by Section 8; 2) refinance of older properties that had LIHTCs and are now re-syndicating with new LIHTCs; or 3) refinance of newly constructed properties.

Section 207/223(f) Low Income Housing Tax Credit Pilot (continued)

166

- Under the pilot, repairs can be up to \$40,000 per unit (higher than the standard 223(f) transaction.)
- Pilot will start in the Boston, Chicago, Detroit and Los Angeles HUD offices and expand to other offices at a later date. Projects must be located within the jurisdiction of one of those offices.

Section 207/223(f)

Underwriting Requirements for Refinances

167

For refinancing, the maximum supportable loan is limited by the lesser of:

	Market Rate	Affordable	>= 90% Rental Assistance
A. Loan to Value Ratio	83.3%	85%	87%
B. Debt Service Coverage Ratio	1.20X	1.17X	1.15X

C. Cost:

- Greater of 100% of eligible costs, or
- if cash out, 80% of market value.
- Eligible costs include existing indebtedness, required repairs, any initial deposit to the replacement reserve, third party reports, and other closing costs.

Section 207/223(f)

Underwriting Requirements for Acquisitions

168

For purchasing, the maximum supportable loan is limited by the lesser of:

	Market Rate	Affordable	>= 90% Rental Assistance
A. Loan to Value Ratio	83.3%	85%	87%
B. Debt Service Coverage Ratio	1.20X	1.17X	1.15X
C. Eligible Transaction Costs	83.3%	85%	87%

Note: Eligible costs include existing indebtedness, required repairs, any initial deposit to the replacement reserve, third party reports, and other closing costs.

Section 207/223(f)

Underwriting Requirements for Occupancy

169

- Minimum physical occupancy – 85%
- Maximum physical occupancy for underwriting:
 - Market rate – 93%
 - Affordable – 95%
- Demonstrate pattern of stable occupancy above standards for a six month period prior to submission of application, and maintain that occupancy through date of final endorsement.
- Market study may be required in volatile or declining markets.

Section 207/223(f)

Additional Info

170

- Maximum term of 35 years, or 75% of the remaining economic useful life.
- Current rates 4-5%
- FHA loan is non-recourse.
- Loan is assumable subject to FHA approval.
- Repairs are funded through a repair escrow. All repairs must be completed within 12 months of the loan closing.
- 223(f) loans are “Direct to Firm” transactions. The lender submits the firm commitment application, and there is only one loan closing (no construction final closing).

HUD Section 221(d)(4)

171

Non-recourse, assumable construction, and permanent financing for new apartments or *substantial rehabilitation* of existing apartments.

Substantial rehabilitation requirements:

- Cost of repairs, replacements and/or improvements must exceed:
 - 15% of the estimated replacement cost after completion of all repairs, replacements and improvements; or
 - \$6,500 per unit adjusted by the local HUD field office high cost percentage for that area.
- or**
- Two or more major building components are being replaced (regardless of cost).

Section 221(d)(4) Underwriting Requirements

172

	Market Rate	Affordable	>= 90% Rental Assistance
A. Debt Service Coverage Ratio	1.20X	1.15X	1.11X
B. Loan to Cost Ratio	83.3%	87%	90%

- Maximum term is 40 years (fully amortizing) plus construction period, or 75% of remaining useful life.
- FHA loan is non-recourse, with standard carve-outs.
- Loans are assumable, subject to FHA approval
- Five or more units
- Davis Bacon wage rates apply (see <http://www.wdol.gov/>)
- No income limits on renters
- Statutory restrictions on the maximum mortgage per unit

Section 221(d)(4) Additional Information

173

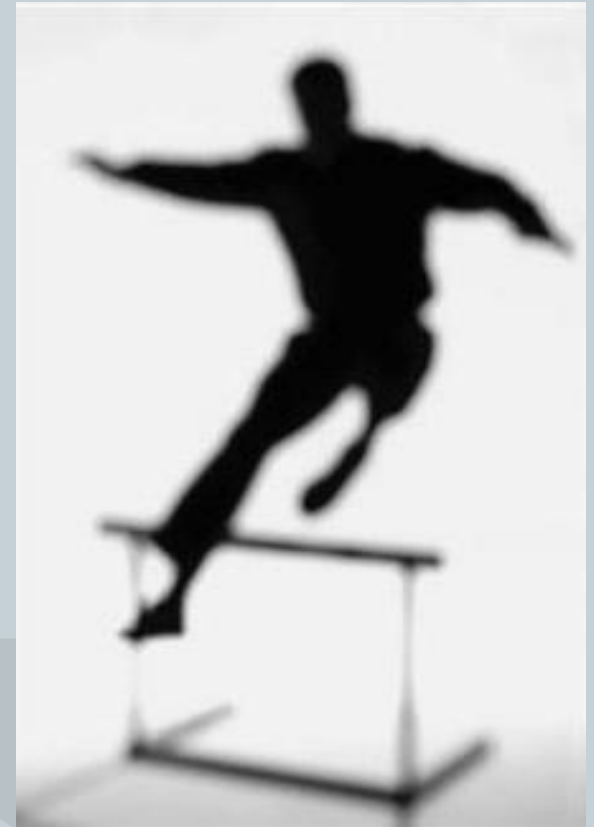
- 221d4 requires a “two stage” process – a pre-application and then a firm commitment application.
- If the project is assisted with Section 8, it may be able to go directly to a firm commitment application.
- The loan is construction-to-permanent financing all in one – after rehab is completed, there is a final closing and the loan transitions to permanent financing up to 40 year term.

Mortgage Insurance Requirements

174

Requirements for all mortgage insurance programs:

- ✓ Regulatory Agreement
- ✓ Single Asset Entity
- ✓ Non-Recourse
- ✓ Fixed Interest Rate
(construction and permanent)
- ✓ Amortization Plan
- ✓ HUD Application fee – 30 bps



Mortgage Insurance Requirements (continued)

175

- ✓ HUD Inspection Fee – 5 bps
- ✓ MIP – 45 bps
- ✓ Lender Fees and charges – max 3.5% of mortgage amount
- ✓ Fair Housing and Equal Opportunity
- ✓ Previous Participation (HUD -2530)
- ✓ Operating Deficit Escrow (Section 221d4 only)
- ✓ Replacement Reserve
- ✓ Environmental Review



Out-of-Pocket Costs

176

- HUD application fee
- Due diligence fee to be paid to lender



Developer Fees

177

- Borrowers may receive a developer fee as part of the transaction.
 - See [Notice 96-63](#) for 221(d)(4) transactions.
 - See [Notice 04-21](#) for 223(f) transactions with a 202.



Comparison of 223(f) and 221(d)(4)

178

Program	Rehab Level	Process	LIHTC
223(f)	Less than \$6500 per unit	Direct to Firm	LIHTC pilot
221(d)(4)	Greater than \$6500 per unit or 2 building systems	2-stage process	May use LIHTCs

Topic 7.3: Low Income Housing Tax Credits (LIHTC)

179



LIHTC Overview

180

- Indirect federal subsidy used to finance the development or renovation of affordable rental housing for low-income households.
- Enacted by Congress in 1986 to provide the private market with an incentive to invest in affordable rental housing.
- Awarded to developers of qualified projects who, in turn, sell them to investors to raise capital for their projects. This reduces the debt that the sponsor would otherwise have to borrow.
- Sponsors receive a dollar-for-dollar tax credit that they sell to tax credit investors, which results in equity to the project.
- The tax credit is allocated over ten years. Investors receive a portion of it each year over the ten-year period.

LIHTC Overview (continued)

181

- The amount of the annual credit is based on the amount invested in the affordable housing.
- LIHTCs can be used either for new construction, or for rehabilitation and preservation of existing affordable housing projects.
- You can combine LIHTCs with HUD rental assistance programs and HUD mortgage insurance programs.
- Owners can get a developer fee as part of the transaction.
- Property owner is a LP or LLC, where the new investor is the 99.99% Limited Partner, and the sponsor is the .01% General Partner.

Tax Credits vs. Deductions

182

Tax Credits	Tax Deductions
Subtracted directly from tax liability	Subtracted from income used to determine tax liability
Example: \$1000 tax credit in a 15% tax bracket reduces tax liability by \$1000	Example: \$1000 tax deduction in 15% tax bracket reduces taxable income by \$1000 thereby reducing tax liability by \$150
Larger impact on reducing tax liability	Smaller impact on reducing tax liability



Additional Benefits of LIHTC

183

Compared to market-rate rental housing:

- Lower debt service payments
- Lower vacancy rates

LIHTC properties typically:

- Are leased quickly due to lower rents
- Offer strong potential economic returns due to the tax credit

Securing Housing Tax Credits

184

Two ways an owner/developer can secure LIHTCs:

- Receive an allocation of 9% credit allocations through a State allocating agency. This is a competitive process.
- Receive an allocation of 4% credit allocations and finance the project utilizing tax-exempt bonds. This is a non-competitive process.



9% Credit Allocation

185

- Each year, the IRS allocates housing tax credits to state agencies that award them to developers through a **competitive process**.
- Federal law requires that the priority be given to projects that:
 - Serve the lowest income families; and
 - Are structured to remain affordable for the longest period of time.
- 10% of each state's annual housing tax credit allocation must be set aside for projects owned by nonprofits.
- This is a competitive process that uses criteria set by the state agency. States often have a set-aside to prioritize preservation of affordable housing. Proposals to repair or substantially rehab HUD-multifamily housing projects can fare quite well in these competitions.

9% Credit Allocation (continued)

186

- Tax credit amount for a project is calculated based on:
 - Costs of development
 - Number of qualified low-income units (tenants earning 60% AMI or less)
- Amount of tax credits awarded cannot exceed the amount needed to make the project feasible.



Tax Exempt Bonds and 4% Credits

187

- Properties financed with tax-exempt bonds are eligible for LIHTCs without having to compete for awards from state agencies.
- Projects must have 50% or more of the project costs financed with tax-exempt bonds to qualify.
- Tax credits are awarded for 4% of the eligible project costs.

4% vs 9% LIHTC

188

	4%	9%
Allocation Method	“As of right” with Tax-exempt bond transaction.	Competitive allocation process
Allocation Limit	Unlimited amount of credit	Cap on allocation per QAP
Max Basis	130% basis boost in QCT	Potential for 130% basis boost at discretion of allocator.
Allocation	50% Test – burn off bonds	Carry over allocation
Value in terms of Total Project Cost	4% credit rate floats	9% rate currently fixed (for projects finished by 12/31/2013)

Sample 9% Calculation

189

TAX CREDIT CALCULATION - 9% LIHTC (competitive)

				Rehabilitation	Acquisition
Total Basis				\$5,000,000	\$3,000,000
(Less: Grants & Other Basis Reductions)				\$-	
(Less: Historic Credits)				\$-	
Total Eligible Basis				\$5,000,000	\$3,000,000
Total Adjusted Basis	QCT/DDA?	Yes	130%	\$6,500,000	\$3,000,000
Total Qualified Basis	Applicable fraction		80.00%	\$5,200,000	\$2,400,000
Applicable Credit Rate	Month of		14-Sep	9.00%	3.30%
Calculated Credit Supported by Basis				\$468,000	\$79,200
Multiplied by 10 Years of Credits				10	10
Total 10 years of Credits available to Investor				\$4,680,000	\$792,000
Credit Price Per \$1.00 of Credits				\$0.85	\$0.85
Total Value of Credits				\$3,978,000	\$673,200
% of Ownership of Limited Partner				99.99%	99.99%
Tax Credit Equity to Project				\$3,977,602	\$673,133
TOTAL Tax Credit Equity to Project (Sum of Rehab and Acq Equity)				\$4,650,735	

Sample 4% Calculation

190

TAX CREDIT CALCULATION - 4% LIHTC with Tax Exempt Bonds

				<u>Rehabilitation</u>	<u>Acquisition</u>
Total Basis				\$5,000,000	\$3,000,000
(Less: Grants & Other Basis Reductions)				\$-	
(Less: Historic Credits)				\$-	
Total Eligible Basis				\$5,000,000	\$3,000,000
Total Adjusted Basis	QCT/DDA?	Yes	130%	\$6,500,000	\$3,000,000
Total Qualified Basis	Applicable fraction		80.00%	\$5,200,000	\$2,400,000
Applicable Credit Rate	Month of		14-Sep	3.30%	3.30%
Calculated Credit Supported by Basis				\$171,600	\$79,200
Multiplied by 10 Years of Credits				10	10
Total 10 years of Credits available to Investor				\$1,716,000	\$792,000
Credit Price Per \$1.00 of Credits				\$0.85	\$0.85
Total Value of Credits				\$1,458,600	\$673,200
% of Ownership of Limited Partner				99.99%	99.99%
Tax Credit Equity to Project				\$1,458,454	\$673,133
TOTAL Tax Credit Equity to Project (Sum of Rehab and Acq Equity)				\$2,131,587	

Eligibility Requirements for LIHTC

191

- ✓ Project must be a residential rental property
- ✓ Meet one of two occupancy threshold requirements:
 - **20-50 Rule:** At least 20% of units must be rent restricted and occupied by households with incomes at or below 50% of Area Median Income (AMI)
 - **40-60 Rule:** At least 40% of units must be rent restricted and occupied by households with incomes at or below 60% of AMI
- ✓ Restrict rents, including utility charges, in low-income units
- ✓ Operate under rent and income restrictions for 30 years or longer
- ✓ Ownership is a new LP or LLC

Additional LIHTC Factors to Consider

192

- Ownership structure: Limited Partnership – LP and GP roles
- Loss of full property tax exemption
- Long timeline
- Significant pre-development costs
- Need for experienced and well-capitalized owner/developer partner

Recent Processing Changes to Accommodate LIHTCs

193

- Affordable properties can apply directly for firm commitment (no requirement for a “two-stage” application process)
- Streamline processing in coordination with LIHTC
 - Modified cash escrow requirements for LIHTC syndication proceeds. Only 20% of LIHTC equity need to be escrowed at closing.
 - Deferral of submission of final plans and specifications until initial endorsement.
 - Commitment can be conditioned on upon HUD-2530 approval.
- In 2012, HUD is launching a tax credit pilot to streamline and expedite approvals for loans for affordable properties that use LIHTCs to fund repairs. The pilot is being launched in three offices but will expand to other offices in future phases.

Using LIHTCs to Preserve HUD Multifamily Housing

194

- As noted earlier, HUD recently launched the LIHTC Pilot program to explore ways to streamline FHA mortgage applications that include LIHTCs.
- LIHTCs can be used to raise equity for the rehab of HUD-insured and HUD-assisted multifamily housing. The LIHTC units may be Section 8 assisted units or unassisted units.
- HUD provides new flexibilities for LIHTCs, including:
 - Owners may include LIHTC compliance fees in Section 8 budgets.
 - Owners may combine LIHTC equity with an FHA loan to augment refinancing.
- Owners may get a developer fee when then do a LIHTC transaction.

Discussion Questions

195

1. Will the project be competitive for an allocation under the QAP?
2. Can the project work with 4% credits?
3. Does the size of the project fall within the 9% Qualified Allocation Plan (QAP) limits?
4. Will the timing of the project allow you to wait until you can apply and receive a 9% allocation?
5. Can the project meet the tax exempt bond requirements?
6. How can the owner use LIHTCs for their HUD project?

Resources for More LIHTC Info

196

- [HUD website](#)
- [Novogradac & Company](#) (LIHTC allocations by State and application deadlines)



Review Question 1

197

1. When applying for an FHA-Insured loan to refinance or rehab your HUD property, who drives the loan process?
 - a. Owner
 - b. HUD
 - c. HUD-approved Lender
 - d. Property Manager

Review Question 1

198

1. When applying for an FHA-Insured loan to refinance or rehab your HUD property, who drives the loan process?
 - a. Owner
 - b. HUD
 - c. **HUD-approved Lender**
 - d. Property Manager

Review Question 2

199

2. Housing Notice 12-01 launched the Low Income Housing Tax Credit pilot. The pilot uses Section 223(f) to test a new process to streamline and expedite the processing of refinance and acquisition of multifamily properties that use LIHTCs. Which is **NOT** one of the 3 eligible property types?
- a. Refinance of newly constructed properties.
 - b. Refinance of existing multifamily projects with substantial rehabilitation needs.
 - c. Refinance of older properties that had LIHTCs and are now re-syndicating with new LIHTCs.
 - d. Refinance of assisted housing projects with 90% or more of the units covered by Section 8.

Review Question 2

200

2. Housing Notice 12-01 launched the Low Income Housing Tax Credit pilot. The pilot uses Section 223(f) to test a new process to streamline and expedite the processing of refinance and acquisition of multifamily properties that use LIHTCs. Which is **NOT** one of the 3 eligible property types?
- a. Refinance of newly constructed properties.
 - b. **Refinance of existing multifamily projects with substantial rehabilitation needs.**
 - c. Refinance of older properties that had LIHTCs and are now re-syndicating with new LIHTCs.
 - d. Refinance of assisted housing projects with 90% or more of the units covered by Section 8.

Review: Lesson 7 Objectives

201

- Identify the property and owner eligibility requirements, and the incentives associated with obtaining federal mortgage insurance via Section 207/223(f) or 221(d)(4).
- Identify the steps required to apply for an FHA-insured loan to refinance or rehab your HUD property/properties.
- Recognize potential benefits that could be achieved through Low Income Housing Tax Credits.

Lesson 8: Other Rental Assistance Preservation Issues and Tools

202



Lesson 8: Objectives

203

- Summarize the Mark-To-Market Program including the definition of qualified nonprofit and the potential benefits of HUD modifying, forgiving, or assigning the Mark-To-Market secondary debt.
- Determine the potential impact of regular and enhanced Tenant Protection Vouchers on the ability to preserve affordable housing.
- Identify current options available for owners of properties with expiring Section 8 Moderate Rehabilitation, Rent Supplement, and RAP properties.
- Identify ELIHPA and LIHPRHA provisions, issues that make preserving properties that participated in these programs challenging, and potential solutions.

Topic 8.1: Mark-To-Market

204



Overview of Mark-To-Market

205

- Mark-To-Market (M2M) was authorized by the Multifamily Assisted Housing Reform and Affordability Act, (MAHRA).
- One of the goals of the Mark-To-Market program was to reduce project-based Section 8 subsidized rents that were greater than market level in projects with FHA-insured mortgages.
- The program authorized HUD to reduce Section 8 rents to market rent levels in these projects.
- HUD restructured the debt on FHA-insured properties so the projects could operate successfully with the lower Section 8 rents.



“Lite” Transactions

206

- Also referred to as rent restructurings.
- Projects that remained viable with Section 8 rents reduced to market rent levels and without further action by the Office of Multifamily Housing Assistance Restructuring (OMHAR).
- The processing required for these transactions was limited and no long-term use agreement was obtained from the owner.

“Full” Transactions

207

- Also referred to as mortgage restructurings.
- Projects that could not continue to pay expenses and debt after the M2M rent reduction.
- Received partial or full payments of mortgages from the FHA Insurance Fund to reduce the size of the first mortgage so market rents covered mortgage and expenses.
- Processing for these transactions was substantial, and required a 30-year Use Agreement from the owner to continue to provide affordable housing.

“Full” Transactions (continued)

208

- The existing FHA-insured first mortgage is paid off in its entirety and a new, generally much smaller mortgage, is put in its place.
- In many cases, the amount of the mortgage payment is not forgiven, but carries an additional debt in second and third mortgages.
- The additional debt is payable over time or when the project is sold or refinanced.
- Most projects that needed M2M restructuring have been completed but HUD continues to do M2M transactions as needed.

Additional M2M Considerations

209

- **Prepaid Mortgages or Mortgages with Lockouts:** Not all properties are eligible for, or required to do M2M restructuring. Some properties have lockout periods, are explicitly exempt from M2M (such as some Section 202s), or do not have FHA mortgage insurance. The property would not be able to take advantage of a Partial Payment of Claim.
- **Ineligibility:** HUD may refuse to consider Restructuring Plans for properties that are owned by entities or affiliates with material adverse financial or managerial actions or omissions, or who do not cooperate with the restructuring process.
- HUD will automatically refer M2M eligible projects with above-market rents to the Office of Affordable Housing Preservation (OAHP) for restructuring.

Additional M2M Considerations (cont.)

210

- **Projects in Poor Condition** generally require additional scrutiny to determine whether a Restructuring Plan is appropriate or feasible.
- **Rent Supplement Contracts:** MAHRA defines eligible multifamily housing projects to include projects with project based assistance under Rent Supplement Contracts. However, the lack of Rent Supp amendment funds or authority to enter into new project based Section 8 contracts severely restricts restructuring options.

Purchase of a M2M Property by a Qualified Nonprofit

211

- Properties that have restructured under the Mark-To-Market program have secondary debt.
- Non-profit organizations may be interested in purchasing these Mark-To-Market properties in order to preserve their affordability.



Relief from M2M Secondary Debt

212

- HUD may modify, forgive or assign the Mark-to-Market (M2M) secondary debt encumbering a project if the project is acquired by a:
 - Tenant organization; or
 - Tenant-endorsed community-based nonprofit or public agency.
- The property must be transferred to a Qualified Non-Profit Purchaser. Until recently, the transfer had to be within 3 years of the restructuring. HUD has issued a new policy, in Housing Notice 12-10, which allows for extensions of this time frame in certain cases.
- The purchaser must also demonstrate the necessity for recapitalization.

Authority: Section 517(a)(5) of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA)

Benefits of Qualified Nonprofit Subordinate Debt Assignment

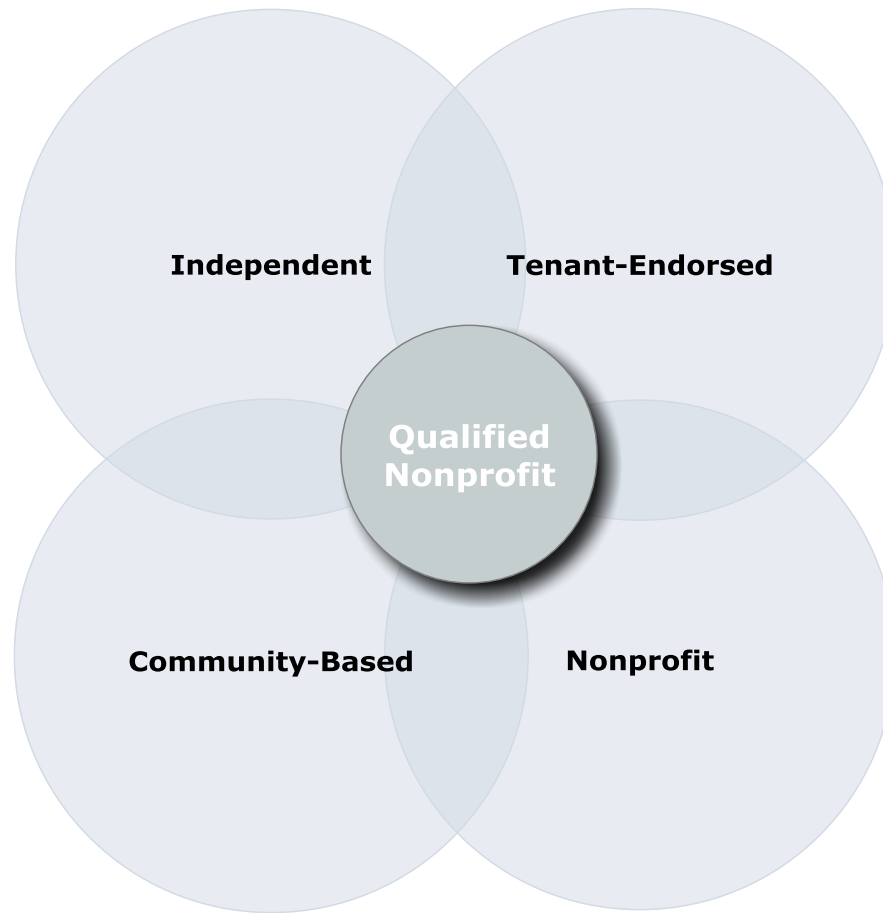
213

- Effectively, the cash flow utilized to pay down the M2M debt becomes available to the nonprofit purchasing the project.
- The property is assumed by a purchaser with an interest in preserving affordable housing.



Qualified Nonprofit Characteristics

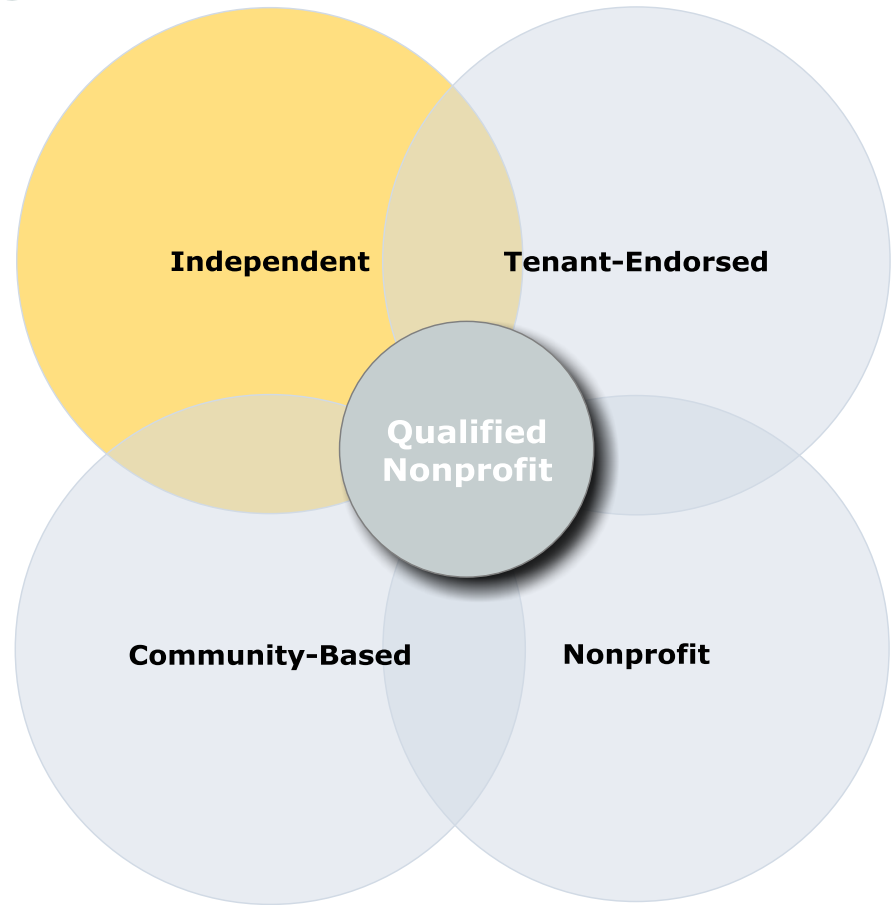
214



Independent Requirement

215

Neither the Purchaser, nor any parent entities, nor any affiliates, may be dependent upon any for-profit entity (including, but not limited to, the seller of the property and/or any affiliates of the seller).



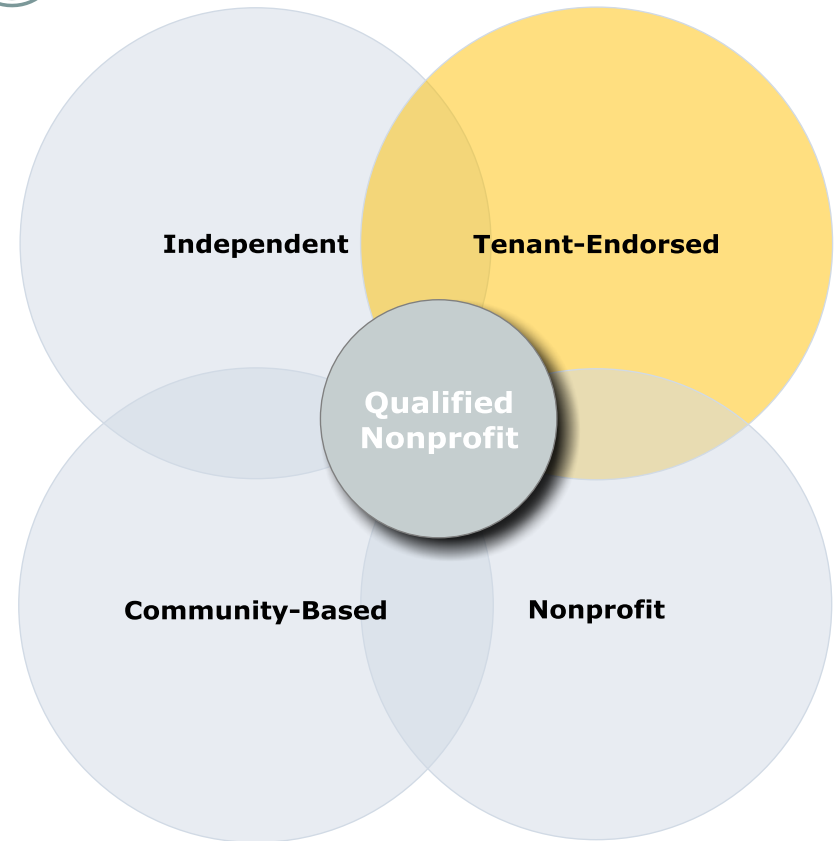
Tenant-Endorsed Requirement

216

Submits documentation that either of the following two events occurred:

1. A majority of the tenant heads of household gave their endorsement in writing.
2. At the Second Tenant Meeting, a majority of the tenant heads of household who were present and who voted, voted in favor of endorsement.

No more than one person from each household may vote.

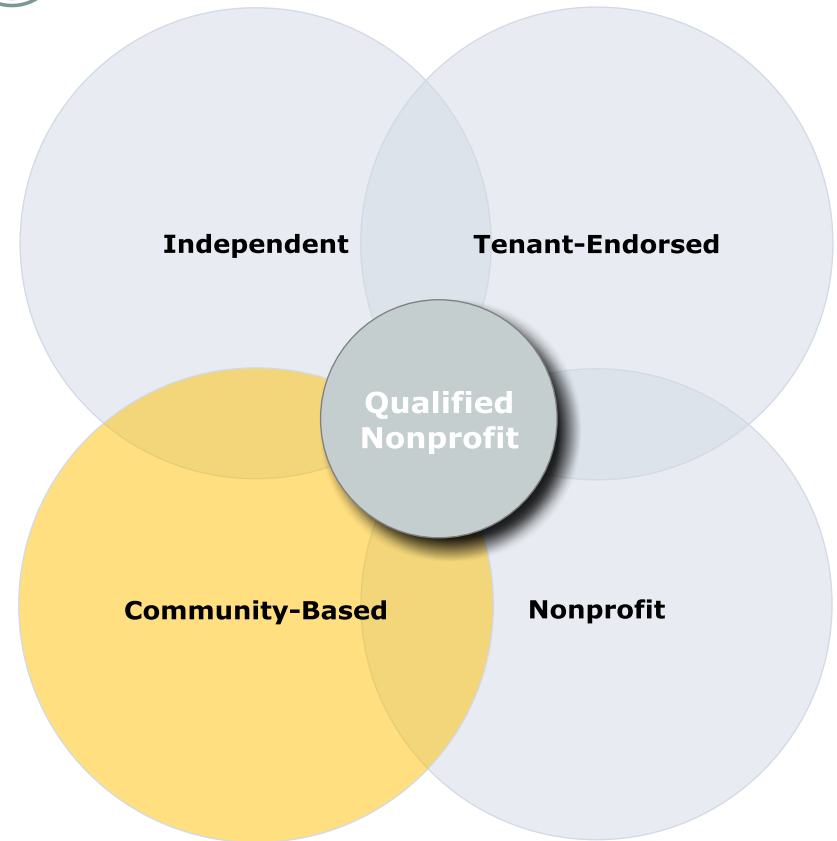


Community-Based Requirement

217

At least one of the following conditions is satisfied:

1. The purchaser is a corporation, and one third of its Board of Directors are project tenants or low-income members of the community.
2. The purchaser has established a Community Advisory Board whose structure has been approved by the Participating Administrative Entities (PAE).

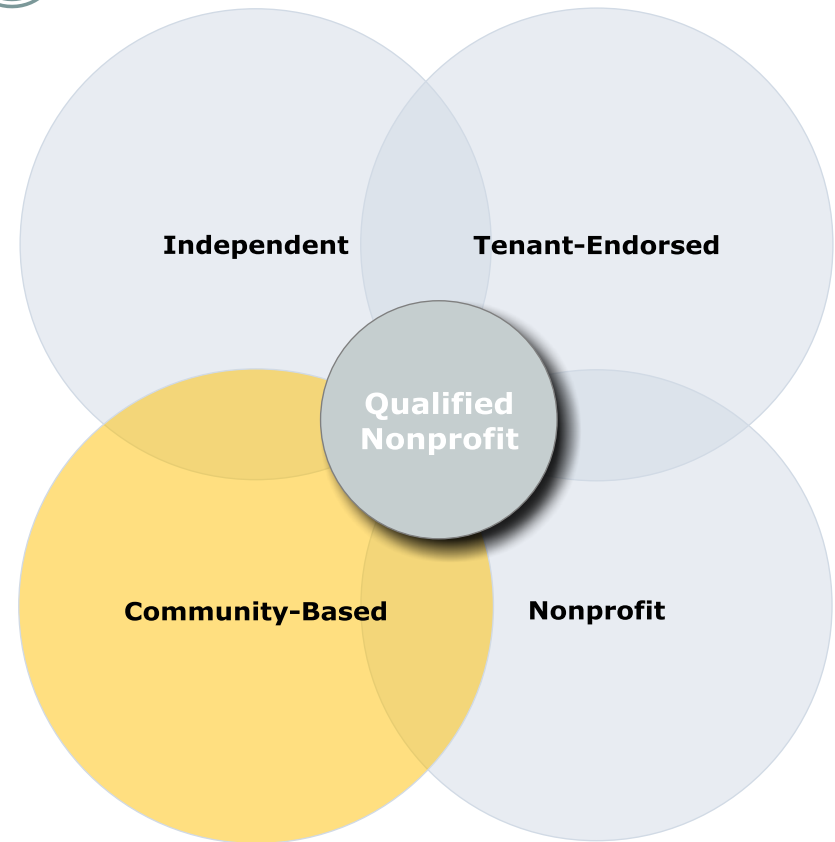


Community-Based Requirement (continued)

218

At least one of the following conditions is satisfied:

3. The purchaser is a tenant organization that meets regularly, whose officers are elected by a majority of heads of households of occupied units, and whose membership is open to all tenants of a project.
4. The purchaser is a Community Based Development Organization (CBDO), a Community Housing Development Organization (CHDO), a Community Development Financial Institution (CDFI), or an affiliate of one of these types of organizations .

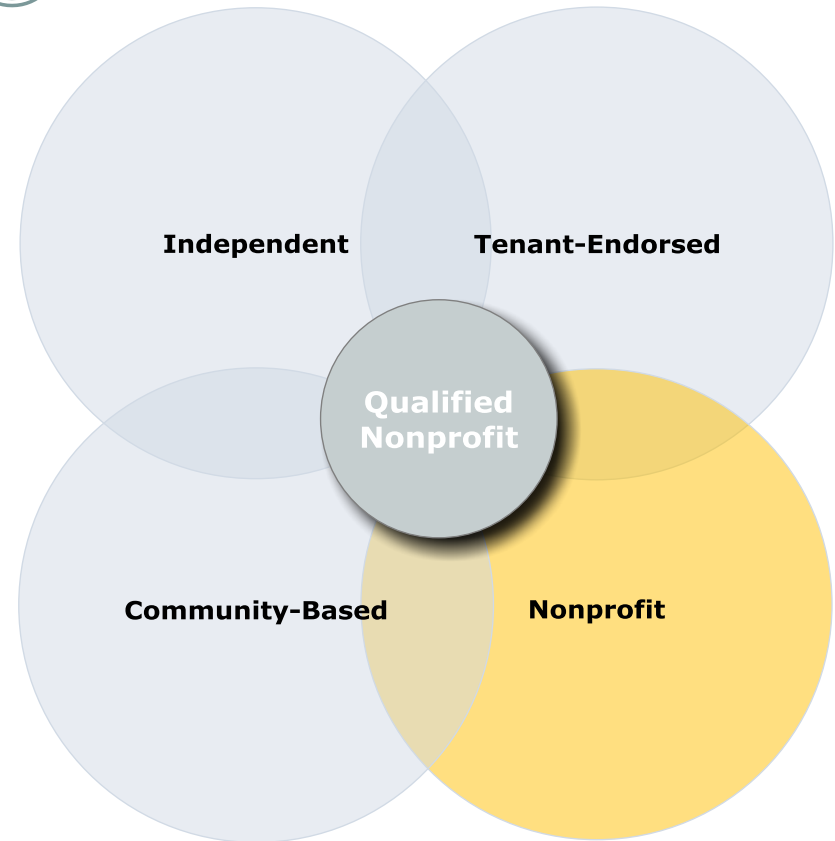


Nonprofit Requirement

219

Demonstrates it is a “nonprofit” by showing that, under the laws of its state of incorporation, one of the following parties has qualified as a non-profit:

1. Is the purchaser itself.
2. If the purchaser is a limited partnership, is the sole general partner. Co-generals will be allowed as long as each meets the definition of “qualified non-profit purchaser.”
3. If the purchaser is a limited liability company (LLC), is the sole managing member.



Benefits of M2M Purchase

220

Benefit to Non-Profit Purchaser	Benefit to Low-income Residents	Benefit to Seller
<p>If approved, the second mortgage and any additional debt evidenced by a Contingent Repayment Note and a third mortgage will be cancelled simultaneously with the cancellation, modification, or assignment of the second mortgage.</p> <p>This makes the transaction less costly and more viable.</p>	<p>HUD requires the purchaser to accept a 50 year affordable housing use agreement and a 10 year restriction on the sale of the property.</p>	<p>No longer responsible for paying the mortgage and the secondary MTM loan.</p> <p>The seller may receive a share of the proceeds from the sale.</p>

Topic 8.2: Tenant Protection Vouchers

221



Tenant Protect Voucher Overview



- Tenant protection vouchers are meant to ensure there is no displacement of low-income residents when a mortgage is prepaid or a rental assistance contract expires.
- TPVs also provide stability to the property (especially enhanced vouchers).
- Enhanced vouchers allow for rent payments *above the local voucher payment standard to comparable market rent* in order to allow existing families to remain in their units, even if the owner increases the rents.

Tenant Protect Voucher Overview

(continued)

223

- When a mortgage is prepaid, vouchers are provided to the unassisted residents. For example, if a project has 100 units and 40 are assisted with a Section 8 contract, the 60 unassisted residents may receive vouchers.
- The tenants are protected from potential rent increases. As an owner, you also benefit from the additional subsidy that a tenant may bring to the property – vouchers pay market rent levels.

Covered Conversion Actions

224

Tenants who are residing in a property on the date of these events are eligible for enhanced voucher assistance:

- Owner opt-outs
- Preservation prepayments: the topic we will discuss today

Prepayment as a Preservation Method

225

- When certain qualifying mortgages are prepaid, HUD can provide affected eligible tenants with enhanced vouchers.
- When a mortgage is paid off on schedule (fully amortized), HUD cannot provide vouchers to affected tenants.

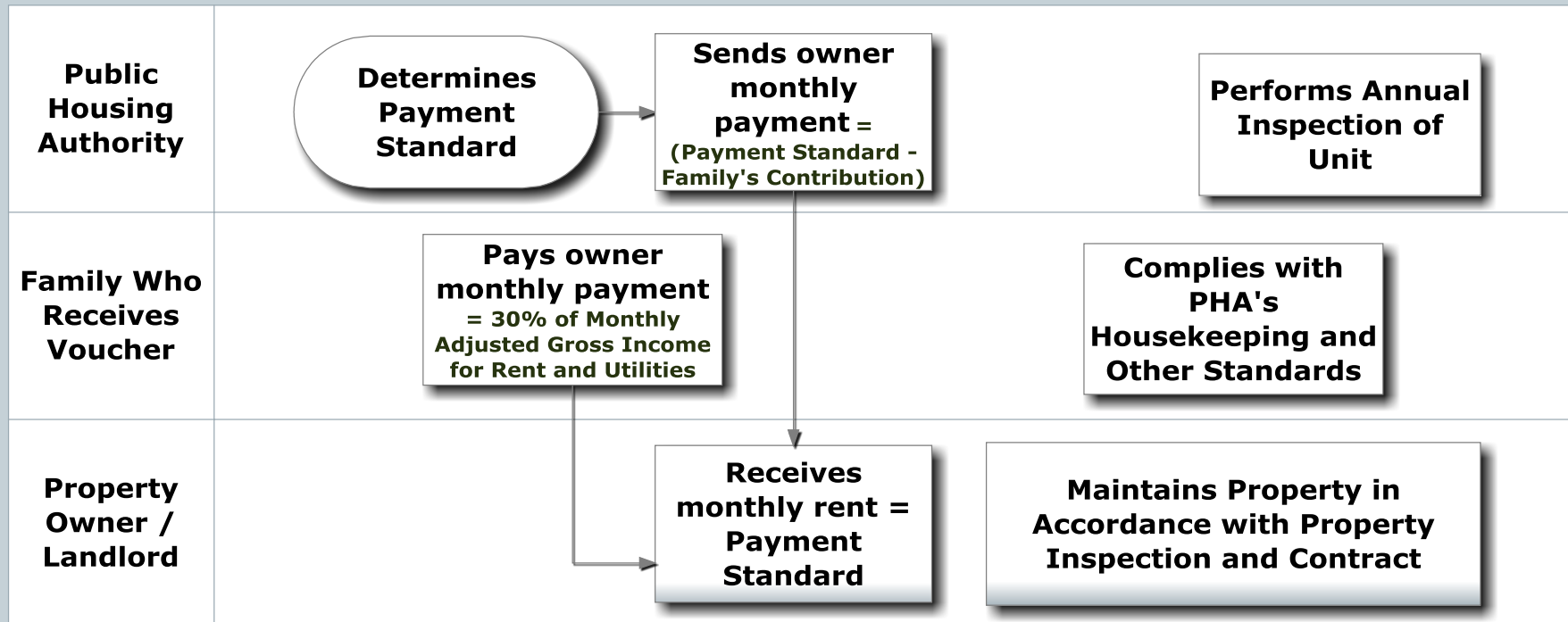
Role of Public Housing Agencies

226

- Housing choice vouchers are administered locally by Public Housing Agencies (PHAs). The PHAs receive federal funds from HUD to administer the voucher program.
- Rental units must meet minimum health and safety standards, as determined by the PHA.

Voucher Payment Process

227



Voucher Payment Exceptions

228

- If the rent charged by the landlord is higher than the payment standard, the family must pay this difference. The most a family can pay is capped at 40% of its adjusted gross income.
- In specific situations, PHAs can issue **enhanced vouchers** that allow for rent payments *above the local voucher payment standard* to *comparable market rent* in order to allow existing families to remain in their units as rents increase.
- With enhanced vouchers, the family has the legal right to remain in their current unit, unless the unit is undergoing substantial rehab or conversion to another use.

Events That Enable HUD to Provide Tenants with Vouchers

229

Qualifying Event	Who Will Receive Vouchers	Type of Voucher
Pre-payment of a Section 236 or 221(d)(3) BMIR loan (except nonprofit projects)	Tenants who are income eligible and do not have Section 8 Assistance	Enhanced
Termination or expiration of a project-based Section 8 contract including Moderate Rehab	Tenants who are income eligible and are currently assisted by the Section 8 contract	Enhanced
Prepayment or Refinance of properties with Flexible Subsidy loans in a preservation transaction	Tenants who are income eligible and do not have Section 8 assistance	Enhanced
Termination or expiration of a Rent Supplement Contract or 236 Rental Assistance Payment contract	All units on the original Rent Supplement or RAP contract that were occupied during the 24 month period prior to the contract termination or expiration	Regular

Voucher Benefits

230

- Tenant protection vouchers benefit the owner by helping preserve occupancy stability during the transition from one financing mechanism to another.
- The resulting rent security helps create and preserve a short-term reliable income stream.
- A new program, Rental Assistance Demonstration, provides options to convert Tenant Protection Vouchers to Project Based Vouchers where there is an expiring or terminating Rent Supplement or RAP contract. This can draw new financing to the property because of the income stream to the project from the Project-Based Vouchers.



Potential Tenant Protection Voucher Challenges

231

- Voucher portability – Tenant Protection Vouchers are tenant-based assistance. If a tenant moves out, the assistance moves with that household and no longer provides income to the property.
- Units must pass quality inspection performed by local housing office and must be maintained to uphold quality standards throughout lease/contract.
- Over time, voucher tenants are likely to be replaced with tenants who must be able to pay full rents (without rental subsidy). If the project is financed with LIHTC, HOME or other public funds, the incomes and rents of replacement tenants will be limited by these programs so income to the project may be lower.

HUD Tenant Protection Voucher Notices

232

- Notice PIH 2010-41 (HA): Section 8 Tenant-Based Assistance (Enhanced and Regular Housing Choice Vouchers) For Housing Conversion Actions – Policy and Processing Guidance (Supersedes HUD Notice PIH 2009-9).
- Notice H 2012-3: Guidance on Eligibility for Tenant Protection Vouchers following Certain Housing Conversion Actions provides updated information on which properties and residents are eligible for vouchers.

Topic 8.3: Rental Assistance Demonstration: Preservation Tools for Rent Supp, RAP, and Section 8 Mod Rehab Projects

233



“Orphan” Programs

234

Rent Supplement



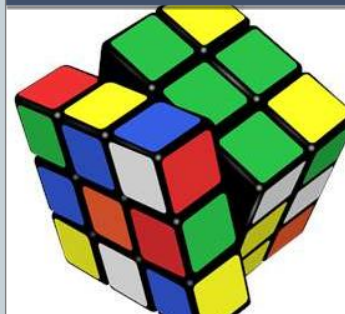
A precursor of Section 8, the Rent Supplement was provided with some original Section 236 and Section 221(d)(3) mortgages.

Rental Assistance Payment



In 1974, Rental Assistance Payment (RAP) was created as an additional form of rental assistance. It was made available primarily to existing Section 236 properties that were experiencing financial problems.

Section 8 Moderate Rehabilitation



During the 1980's, thousands of units were developed under the Section 8 Moderate Rehabilitation program.

Rent Supplement and RAP Extensions



- HUD does not have authority to renew Rent Supp and RAP contracts when they expire.
- Under recent appropriations acts, HUD may authorize short-term extensions of expiring Rent Supplement and RAP contracts for terms up to 12 months.
- The contract must be expiring. If the contract is terminating due to a prepayment or another reason it is not eligible for an extension.
- The owner must be in good standing including a REAC score of 60 or above.
- The contract is extended at current rents (no rent increases).

Rent Supplement and RAP Extensions

(continued)

236

- If there is an underlying HUD mortgage that will mature within 12 months, HUD may only extend the contract out until the maturity date of the HUD mortgage. If there is no HUD mortgage or the mortgage maturity is beyond 12 months, the contract can be extended for a full year from the date it would have expired. For example, if the expiration of the contract is July 1, 2012, the contract can be extended so it will expire July 1, 2013.
- These extensions will be considered as long as funds are available – HUD will not consider extensions more than 6 months ahead of an expiration date and it requires about 60 days to process the extension.
- The owner contacts the field office to request an extension and the field office will provide the necessary contract extension document.

Recent Change: HUD Authority to Provide Vouchers

237

- Until recently, HUD provided Tenant Protection Vouchers when a Rent Supplement (RS) contract expired or was terminated, but not when a RAP contract expired. HUD now provides regular vouchers for all units on the original Rent Supplement or RAP contract when these events occur.
- In some projects, there may be a certain number of units on the original Rent Supplement or RAP contract, but only a small number are actively billing. HUD will provide TPVs for all units on the original contract, even if these units are not actively billing as Rent Supplement or RAP units, as long as the units were occupied in the 24-month period prior to the contract expiration or termination.



New Program: Rental Assistance Demonstration (RAD)

238

- The main body of the Rental Assistance Demonstration (RAD) provides HUD with temporary authority to convert up to 60,000 units of public housing or Section 8 Moderate Rehabilitation to **long-term** Project-Based Vouchers (PBVs) or Project-Based Rental Assistance that are renewable under the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA).



RAD Assistance for Orphan Programs

239

RAD, through the Merkley-Brown Amendment, provides authority to provide project-based rental assistance in the form of Project Based Vouchers (PBVs) for the “orphan” programs:

- Rent Supplement
- Rental Assistance Payment (RAP)
- Section 8 moderate rehabilitation.



Oregon Senator Jeff Merkley



Massachusetts Senator Scott Brown

Project-Based Vouchers (PBVs)

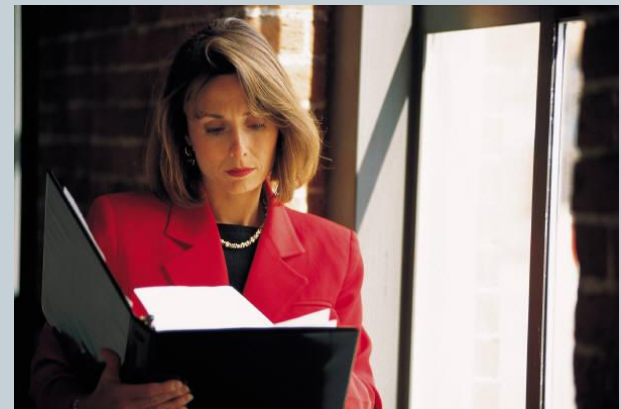
240

- Project-Based Vouchers are Section 8 Housing Choice Vouchers that a Public Housing Authority (PHA) agrees to link to a specific property, providing rental assistance at the project level.
- Owner contracts with Public Housing Authority (PHA), not with HUD.
- PHA manages the waiting list for occupants.
- After one year, tenant may move and take voucher. PHA fills vacancy at the property with another voucher holder.
- Owner may screen voucher holders referred by PHA.
- PBV contract term may be up to 15 years, subject to appropriations, and is renewable.
- Rent limit is generally 110% of FMR, or any excepted payment standard approved by HUD.
- Long-term contract supports financing against income stream.

Project-Based Voucher Limitations

241

- No more than 20% of a PHA's voucher funding can be used.
- No more than 25% of the units in a project can have PBV assistance, except for 1-4 unit projects, elderly or disabled family occupancy or where supportive services are provided.
- Competitive project selection required.
- Must conform to a PHA's goals of de-concentrating poverty and expanding housing and economic opportunities.



RAD Provisions for Converting to PBVs

242

- HUD provided with short-term authority to convert Tenant Protection Vouchers to Project-Based Vouchers (PBVs) at Mod Rehab, Rent Supp and RAP projects in FY 2012 and 2013. There is no competition required.
- Two scenarios:
 - **Prospective conversions:** projects where the Rent Supp, RAP or Mod Rehab contract will expire or terminate due to a mortgage prepayment during fiscal year 2012 or 2013.
 - **Retroactive conversions:** projects where tenants received TPVs because a contract expired or terminated after October 1, 2006.



RAD Provisions for Converting to PBVs

(continued)

243

- The owner may convert these TPVs to PBVs under the terms of the RAD Notice.
- If the owner submitted an application on or before July 26, 2012, the conversion is under the proposed RAD Notice (PIH Notice 12-18), and processed by the Multifamily field office.
- If the owner submitted/submits an application after July 26, 2012, the conversion is under the Final RAD Notice (PIH Notice 2012-32), and the owner applies directly to HUD Headquarters using the email address **RAD@hud.gov**.

RAD Provisions for Converting to PBVs

(continued)

244

- The benefit is that the PBV contract provides a stable source of income to the project for a 15-year term, with renewal options.
- Under RAD, the PHA has additional flexibilities with the PBV program. Examples include:
 - The PHA can make more than 20% of their vouchers project-based.
 - The owner can also cover more than 25% of their units with the PBV contract.

Applying for Conversion to PBVs

245

As described in the RAD notice:

- Rent Supplement and RAP owners seeking a prospective conversion of TPVs apply follow these steps:
 1. Contact the Multifamily field office to schedule a resident briefing in accordance with the RAD Notice.
 2. Issue a tenant notification letter informing tenants of the briefing and the date and time of the briefing.
 3. Hold the required resident briefing.
 4. Open a tenant comment period (starting on the day of the briefing) providing a 30 day period for tenants to comment on the proposed conversion.

Applying for Conversion to PBVs (continued)

246

5. Intake the tenant comments and write a narrative explaining how each of the tenant comments (written or oral) was addressed.
 6. Submit the RAD application to RAD@hud.gov including: 1) Narrative statement, including number of units to convert; 2) Statement of eligibility/compliance; 3) tenant notification and tenant comment information; 4) Property Agreements and Contracts; 5) LIHTC Award or Allocation information; and 6) Prepayment application. A complete application must include all 3 exhibits.
- Owners of Moderate Rehab projects or retroactive Rent Supplement and RAP projects submit an application to the PHA that administers the vouchers.

RAD Provisions for Converting to Long-Term Section 8 Contracts

247

- In addition to the provisions we just described related to Rent Supp, RAP and Mod Rehab conversions of TPVs to PBVs, the Rental Assistance Demonstration authorizes HUD to convert Public Housing Units or expiring Section 8 Mod Rehabilitation units to long-term Section 8 contracts, either through:
 - PBV contracts with a PHA; or
 - A regular HAP contract with HUD that is renewable under MAHRA.

RAD Provisions for Converting to Long-Term Section 8 Contracts (continued)

248

- A 60,000 unit limit through 2015.
- Competitive selection process conducted by HUD.
- New Section 8 contract must be paid for with funds transferred from public housing operating or capital funds or from Section 8 Moderate Rehabilitation contracts.

In other words, no new funding is provided, only transfers of existing funds.



Activity: Preservation Options

Determine viable options to sustain an affordable multifamily housing property.

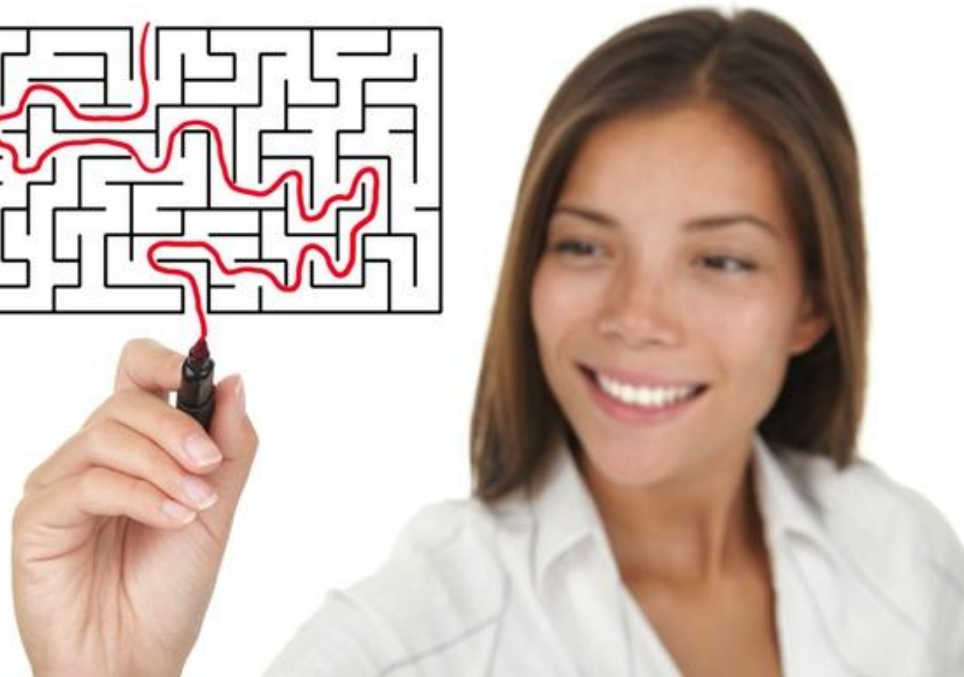
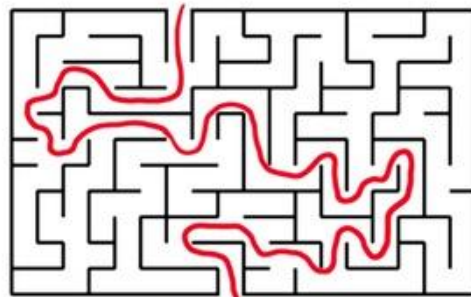
Instructions

- Read the description of the property and its characteristics.
- In your group, discuss options the owner could pursue to preserve it as affordable housing.
- Try to reach consensus to determine the option with the optimal chance of success.
- Be prepared to share your group's recommended option with the facilitator and other participants.



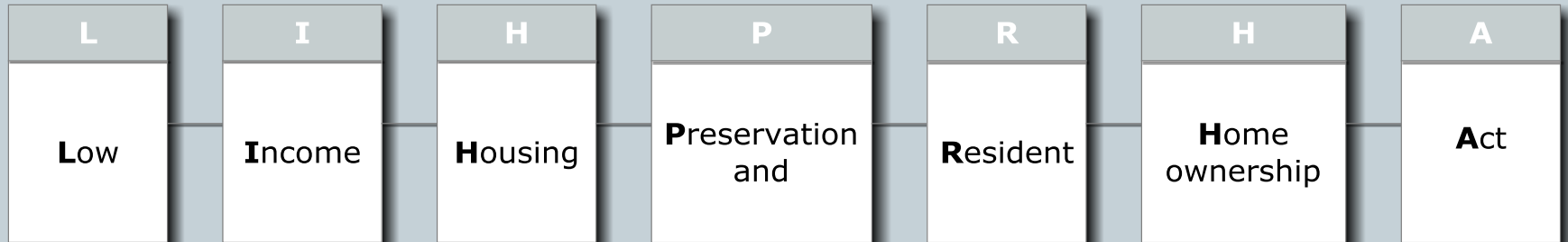
Topic 8.4: Preservation Issues Related to LIHPRHA and ELIHPA

250



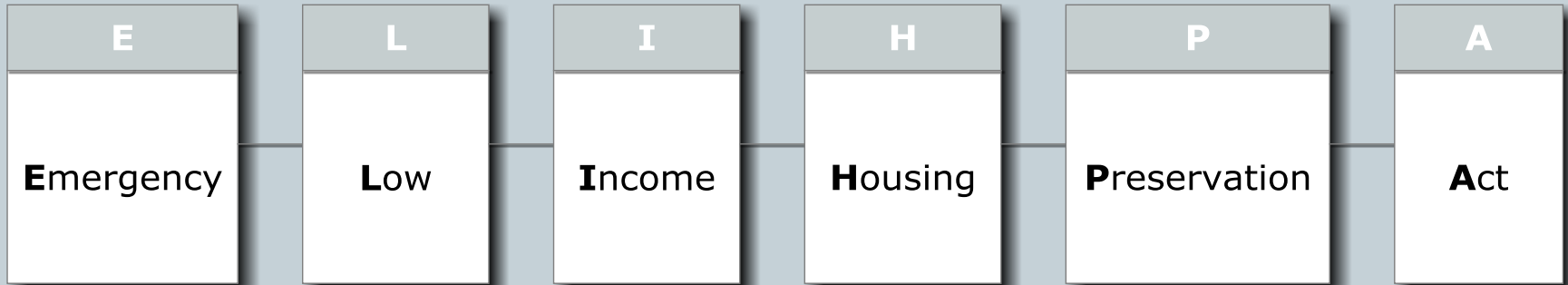
LIHPRHA

251



ELIHPA

252



LIHPRHA and ELIHPA Overview

253

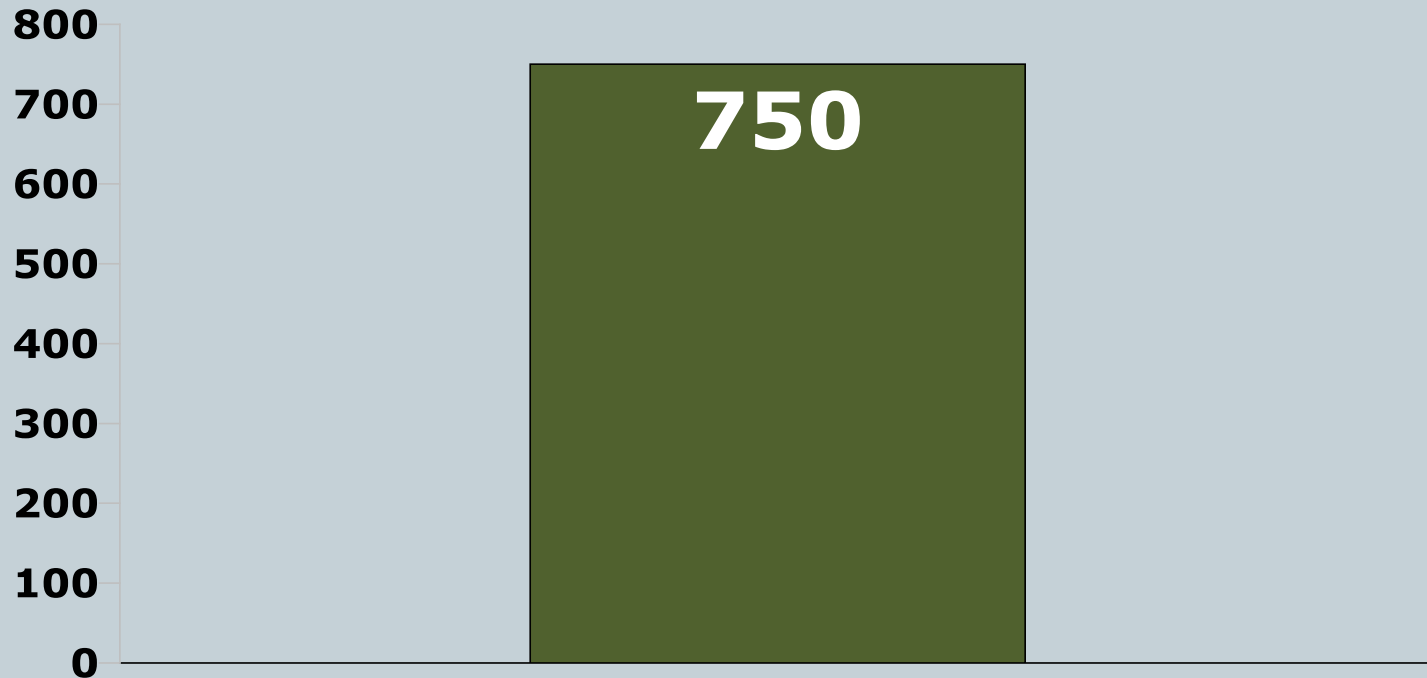
- Between 1987-1996, HUD-assisted properties received preservation funding under LIHPRHA and ELIHPA.
- LIHPRHA and ELIHPA applied only to Section 236 and 221(d)(3) BMIR properties.



How Many Properties Received LIPHRHA or ELIHPA Funding?

254

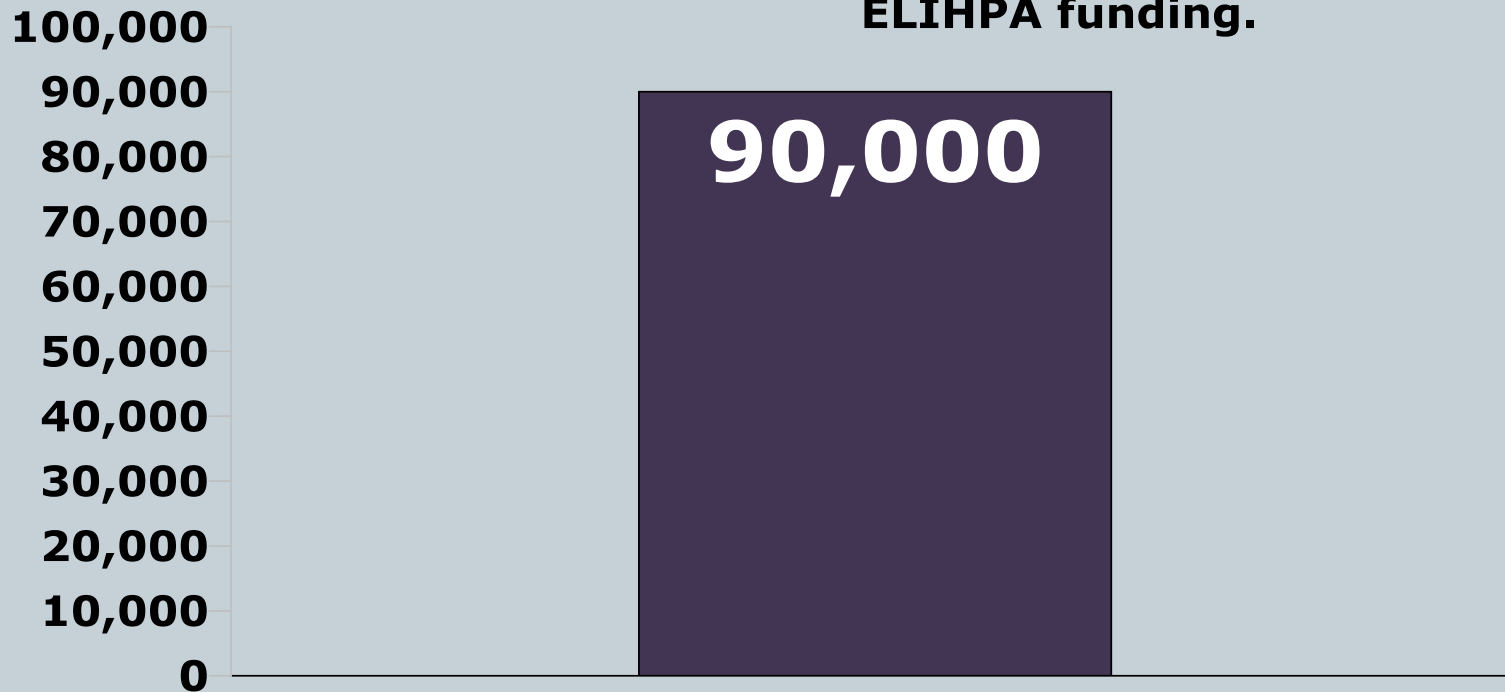
Between 1987-1996, 750 HUD-assisted properties received preservation funding under LIHPRHA and ELIHPA.



How Many Units Received LIHPRHA or ELIHPA Funding?

255

There were a total of 90,000 units in the 750 properties that received LIHPRHA and ELIHPA funding.



LIHPRHA and ELIHPA Incentives

256

Incentives provided to owners in order to preserve the affordability of these properties included:

- Section 8 rental assistance for eligible tenants
- Increased allowable return:
 - 8% of equity in LIHPRHA
 - Unlimited in ELIHPA
- Access to residual receipts
- Capital improvement loans



LIHPRHA and ELIHPA Use Agreements

257

- LIHPRHA use agreements are for the greater of 50 years or useful life of the property.
- ELIHPA use agreements expire at the end of the original 40-year subsidized mortgage.
- Rents for non-Section 8 tenants are regulated to maintain affordability to specific income tiers.



LIHPRHA and ELIHPA

Preservation Issues

258

- The availability of distributions.
- The availability of relief from "tier rents" in the event Section 8 is lost in the future.
- For partial Section 8 properties, the availability of enhanced vouchers if the underlying legacy BMIR or §236 mortgage is prepaid, and the definition of their maximum rents.
- The availability of an equity takeout after refinancing.
- The imminent expiration of ELIHPA use agreements, and the need to (or opportunity) to prepay the underlying first mortgage in time to get Enhanced Vouchers for any non-Section 8 tenants.
- Significant variety in the deal structure and requirements of different LIHPRHA and ELIHPA properties.

LIHPRHA and ELIHPA Preservation Opportunities

259

- The long-term preservation of LIHPRHA and ELIHPA properties is a complex undertaking.
- HUD is working on expanding potential solutions to assist owners with LIHPRHA and ELIHPA properties.
- HUD may consider amending LIHPRHA and ELIHPA use agreements to allow an owner to take distributions up to 8% of initial equity, as allowed by statute. Current use agreements place unnecessary restrictions on the equity below the allowed 8%.
- To determine potential solutions, it is recommended that you seek advice from an expert who has experience with preserving this type of property.
- Nonprofit sales proceeds (if you are selling).



20-Year Contract Option Five

260

Eligible Property Types

- Section 236 and 221(d)(3) Below Market Interest Rate (BMIR) project whose owners entered into long-term use agreements with HUD under the preservation LIHPRHA and ELIHPA program.
- Portfolio Reengineering Demonstration (Demo) Program projects that completed the Demo Program, as evidenced by a recorded Demo Program Use Agreement.

Owners of eligible properties can receive a multi-year contract not to exceed the lesser of twenty years or the remaining term of the recorded use agreement.

Note: For complete guidance and information regarding Option Five, refer to Chapter 7 of the Section 8 Renewal Policy Guidebook.

Submission Requirements for a Subsequent Option Five Renewal

261

- Contract Renewal Request Form
- One Year Tenant Notification Letter
- OCAF Rent Adjustment Worksheet (if applicable)
- Budget-Based Rent Adjustment (if applicable)
- Utility Allowance Analysis (if applicable)



Review Question 1

262

1. Tenant Protection Vouchers provide several benefits including helping to ensure low-income residents are not displaced when certain events occur and providing economic stability to properties when they are transitioning from one type of financing to another.

Which of the following events enable HUD to provide eligible tenants with enhanced vouchers? (Circle all that apply.)

- a. Expiration of a Section 236 Rental Assistance payment contract
- b. Refinance of a property with a Flexible Subsidy loan as part of a preservation transaction
- c. Prepayment of a loan with Section 221(d)(3) mortgage insurance and a Below Market Interest Rate by a for-profit owner
- d. Termination of a project-based Section 8 contract

Review Question 1

263

1. Tenant Protection Vouchers provide several benefits including helping to ensure low-income residents are not displaced when certain events occur and providing economic stability to properties when they are transitioning from one type of financing to another.

Which of the following events enable HUD to provide eligible tenants with enhanced vouchers? (Circle all that apply.)

- a. Expiration of a Section 236 Rental Assistance payment contract
- b. Refinance of a property with a Flexible Subsidy loan as part of a preservation transaction**
- c. Prepayment of a loan with Section 221(d)(3) mortgage insurance and a Below Market Interest Rate by a for-profit owner**
- d. Termination of a project-based Section 8 contract**

Review Question 2

264

2. The newly passed Rental Assistance Demonstration provides new opportunities for preserving properties participating in which of the following programs? (Circle all that apply.)
- a. Rental Assistance Payment
 - b. Rent Supplement
 - c. Section 221(d)(3)
 - d. Section 8 Moderate Rehabilitation

Review Question 2

265

2. The newly passed Rental Assistance Demonstration provides new opportunities for preserving properties participating in which of the following programs? (Circle all that apply.)
- a. **Rental Assistance Payment**
 - b. **Rent Supplement**
 - c. **Section 221(d)(3)**
 - d. **Section 8 Moderate Rehabilitation**

Review Question 3

266

2. An owner of a property with a Rent Supplement contract set to expire in 2013 wished to apply to convert to Project-Based Vouchers. Which agency/office should the owner first contact to submit their application for the conversion?
- a. HUD Headquarters
 - b. The HUD Multifamily Field office with jurisdiction for the area in which the property is located
 - c. The Public Housing Authority that administers the Project-Based Vouchers
 - d. Their current lender

Review Question 3

267

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- a. HUD Headquarters
 - b. The HUD Multifamily Field office with jurisdiction for the area in which the property is located**
 - c. The Public Housing Authority that administers the Project-Based Vouchers
 - d. Their current lender

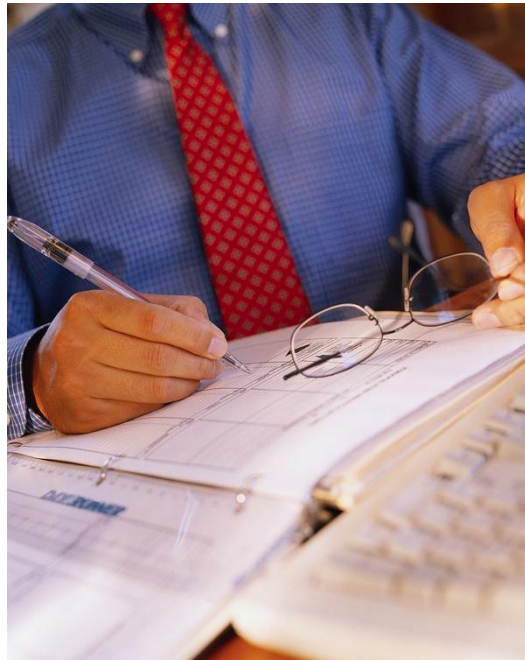
Review: Lesson 8 Objectives

268

- Summarize the Mark-To-Market Program including the definition of qualified nonprofit and the potential benefits of HUD modifying, forgiving, or assigning the Mark-To-Market secondary debt.
- Determine the potential impact of regular and enhanced Tenant Protection Vouchers on the ability to preserve affordable housing.
- Identify current options available for owners of properties with expiring Section 8 Moderate Rehabilitation, Rent Supplement, and RAP properties.
- Identify ELIHPA and LIHPRHA provisions, issues that make preserving properties that participated in these programs challenging, and potential solutions.

Lesson 9: Asset Management Issues Related to Preservation Transactions

269



Lesson 9: Objectives

270

HUD works with owners to facilitate the preservation of affordable housing, allowing the use of funds in the Reserve for Replacement fund and Residual Receipts account for repairs and sustaining long-term viability of the property. In order to determine the availability, use, and restrictions of these funds, the owner must:

- Recognize the importance of maintaining a good relationship with HUD to be eligible for preservation tools and programs.
- Perform the HUD calculations necessary to determine surplus cash when given a hypothetical balance sheets.
- Accurately interpret and apply HUD guidelines for establishing and using Residual Receipts.

Lesson 9: Objectives (continued)

271

- Demonstrate the ability to recognize and apply HUD control instruments for the funding and use of Project Reserve for Replacements (R4R).
- Identify criteria that HUD project managers use to determine management and project compliance and financial stability.
- Provide the information and metrics necessary for HUD project managers to perform periodic analysis of the financial and physical state of their properties.

Topic 9.1: Distributions from Surplus Cash

272



Surplus Cash

273

Surplus cash is the cash remaining after all necessary and reasonable expenses of the project have been paid, or funds have been set aside for such payment; and is usually computed at the end of the fiscal year.

Limited Dividend Owners

- The amount of the distribution (6% or 10% of initial equity) is defined in the project's regulatory agreement. The remaining cash is deposited in the residual receipts account. Under certain conditions and for certain purposes, HUD may approve disbursements from the residual receipts account.

Non-profit Property Owners

- Distribution of surplus cash is not permitted. Surplus cash must be deposited in the residual receipts accounts. Under certain conditions and for certain purposes, HUD may approve disbursements from the residual receipts account.

Computation of Surplus Cash

274

[HUD Form 93486](#) "Computation of Surplus Cash" is used either semi-annually or annually (depending on the executed Regulatory Agreement for the project) to calculate allowable distributions, and any amounts that may be due for deposit to the Residual Receipts Account.

Computation of Surplus Cash, Distributions and Residual Receipts

U.S. Department of Housing
and Urban Development
Office of Housing
Federal Housing Commissioner

Project Name	Fiscal Period Ended: ____/____/____	Project Number
Part A – Compute Surplus Cash		
Cash		
1. Cash (Accounts 1110, 1120, 1191, 1192)	\$	
2. Tenant subsidy vouchers due for period covered by financial statement	\$	
3. Other (describe)	\$	
(a) Total Cash (Add Lines 1, 2, and 3)	\$	

Activity: Surplus Cash Calculation

Calculate surplus
cash

Instructions

- For each balance sheet, perform the calculations necessary to determine surplus cash.



BLUE RIDGE APARTMENTS

Section 236 Limited Dividend, 100% Sec 8, 100 units

Part A - Compute Surplus Cash

Cash

1. Cash	11,874
2. Tenant Subsidy Vouchers due	50,000
3. Other (describe)	

a. Total cash (add lines 1, 2, and 3) 61,874

Current Obligations

4. Accrued mortgage interest payable	8,060
5. Delinquent mortgage principal payments	
6. Delinquent deposits to reserves for replacement	3,145
7. Accounts payable (due within 30 days)	5,000
8. Loans and notes payable (due within 30 days)	4,000
9. Deficient Tax insurance or MIP Escrow deposits	
10. Accrued expenses (not escrowed)	6,000
11. Prepaid rents	
12. Tenant security deposits liabilities	
13. Other (describe)	

b. Less total current obligations (add lines 4 through 13) 26,205

c. Surplus Cash (Deficiency) (Line (a) minus Line (b)) 35669

Part B - Compute Distributions to Owners and Required Deposits to Residual Receipts

1. Surplus Cash

35,669

Limited Divident Projects

2a. Annual Distribution Earned During Fiscal Period Covered by the Statement 8,060

2b. Distribution Accrued Unpaid as of the End of the Prior Fiscal Period

2c. Distributions Paid During Fiscal Period Covered by the Statement

3. Annual Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (line 2a plus 2b minus 2c)

8,060

4. Amount Available for Distribution During Next Fiscal Period

8,060

5. Deposit Due Residual Receipt (must be deposited with Mortgagee within 60 days after Fiscal Period ends)

\$27,609

PARADISE RETIREMENT COMMUNITY
Section 202 (NonProfit), 100% Section 8

Part A - Compute Surplus Cash

Cash

1. Cash	11,874
2. Tenant Subsidy Vouchers due	70,000
3. Other (describe)	

a. Total cash (add lines 1, 2, and 3)	81,874
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Current Obligations

4. Accrued mortgage interest payable	9,750
5. Delinquent mortgage principal payments	
6. Delinquent deposits to reserves for replacement	2,185
7. Accounts payable (due within 30 days)	3,000
8. Loans and notes payable (due within 30 days)	4,000
9. Deficient Tax insurance or MIP Escrow deposits	
10. Accrued expenses (not escrowed)	6,000
11. Prepaid rents	
12. Tenant security deposits liabilities	
13. Other (describe)	

b. Less total current obligations (add lines 4 through 13)	24,935
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c. Surplus Cash (Deficiency) (Line (a) minus Line (b))	56939
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Part B - Compute Distributions to Owners and Required Deposits to Residual Receipts

1. Surplus Cash

56,939

Limited Divident Projects

2a. Annual Distribution Earned During Fiscal Period Covered by the Statement

2b. Distribution Accrued Unpaid as of the End of the Prior Fiscal Period

2c. Distributions Paid During Fiscal Period Covered by the Statement

3. Annual Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (line 2a plus 2b minus 2c)

4. Amount Available for Distribution During Next Fiscal Period

5. Deposit Due Residual Receipt (must be deposited with Mortgagee within 60 days after Fiscal Period ends)

-

0-

\$56,939

OAK STREET VILLAGE

Section 221(d)(4) For Profit, Partial Section 8, 50 units

Part A - Compute Surplus Cash

Cash

1. Cash	14,936
2. Tenant Subsidy Vouchers due	35,000
3. Other (describe)	

a. Total cash (add lines 1, 2, and 3)

49,936

Current Obligations

4. Accrued mortgage interest payable	9,050
5. Delinquent mortgage principal payments	10,000
6. Delinquent deposits to reserves for replacement	3,145
7. Accounts payable (due within 30 days)	2,000
8. Loans and notes payable (due within 30 days)	1,500
9. Deficient Tax insurance or MIP Escrow deposits	
10. Accrued expenses (not escrowed)	4,000
11. Prepaid rents	
12. Tenant security deposits liabilities	
13. Other (describe)	

b. Less total current obligations (add lines 4 through 13)

29,695

c. Surplus Cash (Deficiency) (Line (a) minus Line (b))

20241

Part B - Compute Distributions to Owners and Required Deposits to Residual Receipts

1. Surplus Cash

20,241

Limited Divident Projects

2a. Annual Distribution Earned During Fiscal Period Covered by the Statement

2b. Distribution Accrued Unpaid as of the End of the Prior Fiscal Period

2c. Distributions Paid During Fiscal Period Covered by the Statement

3. Annual Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (line 2a plus 2b minus 2c)

4. Amount Available for Distribution During Next Fiscal Period

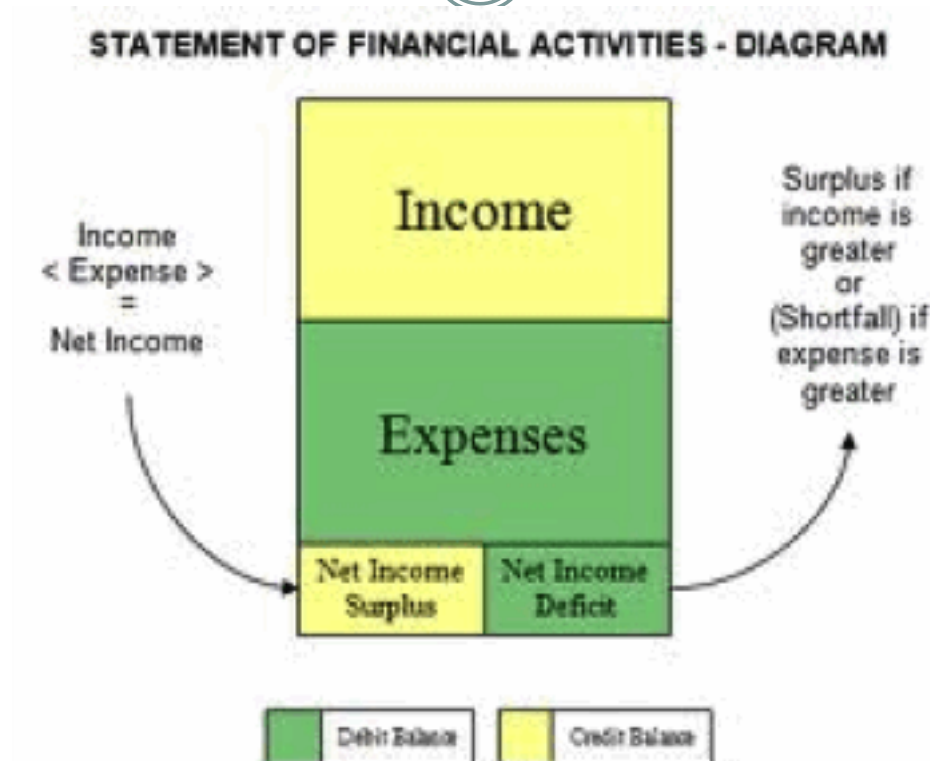
20,241

5. Deposit Due Residual Receipt (must be deposited with Mortgagee within 60 days after Fiscal Period ends)

\$-0-

Topic 9.2: Funding and Withdrawals from Residual Receipts

282



Residual Receipts

283

- Residual Receipts are an asset of the mortgagor held under HUD's control.
- The requirement for a Residual Receipts account is established by a Regulatory Agreement, or a project-based subsidy contract such as Section 8, or applicable sections of the Code of Federal Regulations (CFR).



Residual Receipts

284

- The new notice, Housing Notice 12-14, requires, among other things, that owners use funds in the Residual Receipts fund to reduce housing assistance payments.

Residual Receipts

285

- Old Regulations - Prior to 1979/1980, HUD's Section 8 housing assistance payments contracts did not contain provisions regarding Residual Receipt use.
- New Regulations - In 1979/1980, HUD changed the regulations at 24 CFR (*Code of Federal Regulations*) *Parts 880, 881, and 883* requiring Section 8 housing assistance payments contracts to outline the use and disposition of Residual Receipts.

Residual Receipts

286

The local HUD Field Office may approve use of Residual Receipts for the following purposes:

OLD Regulations include, but not limited to:

- Reduce operating deficits when legitimate cash flow deficits exist, i.e., offset increased operating expenses instead of increasing rental rates.
- Make mortgage payments when a mortgage default is actual or imminent.
- Make repairs to the property not covered by the Reserve Fund for Replacements.
- Provide additional project amenities such as energy saving devices, as well as office equipment, such as computers and associated software.

NEW Regulations are limited to:

- Reduce operating deficits when legitimate cash flow deficits exist, i.e., offset increased operating expenses instead of increasing rental rates.
- Make mortgage payments when a mortgage default is actual or imminent.
- Reduce Section 8 assistance payments

Note: Pursuant to November 2011 memo, HUD Headquarters must approve all requests for releases of New Regulation residual receipts, with the exception of service coordinators.

Activity: Residual Receipt Compliance

HUD Residual
Receipt guidelines
and compliance.

Instructions

Based on the information provided for each property, answer the questions related to Residual Receipt guidelines and compliance.



Property One

The Jamison Community Complex was a Section 202 property. The non-profit owner entered into a Section 8 Housing Assistance Payment contract on December 15, 1980.

What document determines the Residual Receipt?

Section 8 HAP contract

Does the property fall under the pre or post-revised regulations?

Pre

Post

Name one use of Residual Receipts that the HUD local field office might approve.

Reduce Section 8 assistance payments

Property Two

The Lincoln Apartments was a Section 8 221(d)(4) substantial rehabilitation project, owned by a for-profit entity that entered into a Housing Assistance Payment contract on July 29, 1980.

What document determines the Residual Receipt?

Section 8 HAP contract

Does the property fall under the pre or post-revised regulations?

Pre

Post

Name one use of Residual Receipts that the HUD local field office might approve.

Make mortgage payments when a mortgage default is actual or imminent

Property Three

The Adams Retirement property was a Section (221)(d)(3) property owned by a Limited Dividend entity that entered into a Housing Assistance Payment contract on November 26, 1976.

What document determines the Residual Receipt?

Regulatory Agreement

Does the property fall under the pre or post-revised regulations?

Pre

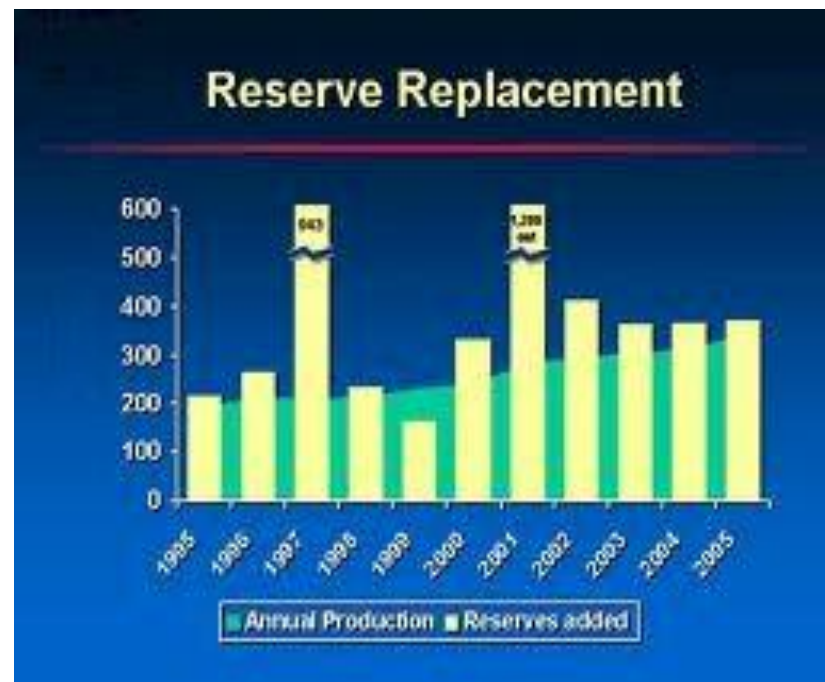
Post

Name one use of Residual Receipts that the HUD local field office might approve.

Make repairs to the property not covered by the Reserve Fund for Replacements

Topic 9.3: Funding and Use of Project Reserve for Replacement

291



Funding Reserve for Replacement

292

- The Reserve for Replacement Fund is generally used to help defray the costs of replacing a project's capital items.
- When a property's mortgage is refinanced, under certain conditions, the owner may use funds in the Reserve for Replacement account resulting from the refinance.
- Owners maintain a reserve fund for replacements by depositing in a financial institution designated by the mortgagee, on an on-going basis, an amount approved by HUD.



Items Eligible for Use of Reserve for Replacement Funds

293

Examples of items eligible for use of Reserve for Replacement funds



- Replacement of refrigerators, ranges, and other major appliances in the dwelling units.
- Extensive replacement of kitchen and bathroom sinks and counter tops, bathroom tubs.
- Major Roof repairs, including replacements of gutters and downspouts.
- Major plumbing and sanitary system repairs.

Items Eligible for Use of Reserve for Replacement Funds (continued)

294

Examples of items eligible for use of Reserve for Replacement funds



- Replacement or major overhaul of central air conditioning and heating systems, including cooling towers, water chilling units, furnaces, stokers, boilers, and fuel storage tanks.
- Energy efficiency improvements.
- Overhaul of elevator systems.
- Major repaving/resurfacing/sealcoating (sidewalks, parking lots, and driveways).
- Repainting of the entire building exterior.
- Extensive replacement of siding.

Items Ineligible for Use of Reserve for Replacement Funds

295

Example of items not eligible for use of Reserve for Replacement funds



- Repainting of interior areas of projects.
 - Window and screen repairs.
 - Extensive replacement of exterior (lawn) sprinkler systems.
 - Replacement of range burners, oven elements, controls, wiring, etc.
-
- Purchase of maintenance tools and equipment such as lawn mowers or snow blowers.

Items Ineligible for Use of Reserve for Replacement Funds (continued)

296

Example of items not eligible for use of Reserve for Replacement funds



- Purchase of minor office equipment.
- Inspection/recharging/replace ment of fire extinguishers.

Determining Monthly R4R Deposit

297

- The property owner/management agent should perform a reserve analysis to determine a reasonable monthly deposit.
- Determine average monthly cost for all capital items that must be replaced.
- The total of the average monthly cost for all expected replacements would give you a reasonable monthly deposit. It does not consider inflation or current balances in reserve.

Example Determination of R4R Deposit

298

1.

- Replace 25 refrigerators costing \$400 each
- Multiply $25 \times \$400 = \$10,000$

2.

- Estimated useful life of a refrigerator
- 10 years (or 120 months)

3.

- Monthly deposit:
- $\$10,000 \text{ divided by } 120 = \84

Periodic R4R Analysis

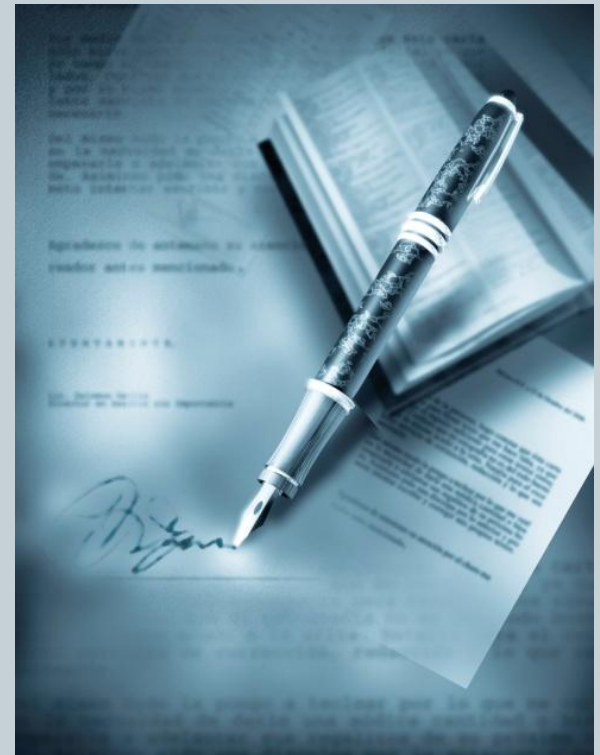
299

- The reserve analysis should be re-evaluated on a periodic basis as new information becomes available.
- The monthly Reserve for Replacement deposit is automatically adjusted for Section 8 projects whose rents are adjusted using the AAF , OCAF, or via a budget-based rent increase.
- A request to increase R4R deposits is typically made in conjunction with a rent increase request to fund the increased deposits. If the analysis indicates a need to increase the rate of deposits into the Reserve Fund, the owner should contact the local HUD office and request an increase in the deposits.

HUD Written Consent Required

300

- All disbursements from the Reserve for Replacement account require HUD prior approval.



Topic 9.4: Monitoring Property Performance

301

HUD Multifamily Asset
Management and Project
Servicing Manual
4350.1 REV-1



**INDUSTRY USER GUIDE FOR
THE FINANCIAL ASSESSMENT
SUBSYSTEM – MULTIFAMILY
HOUSING (FASSUB)
RELEASE 7.0.0.0**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Office of Public and Indian Housing, Real Estate
Assessment Center (PIH-REAC)

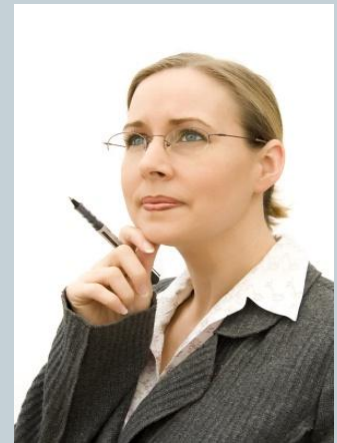
June 22, 2007

Volume 1
(Chapters 1 – 13)

Monitoring Purpose

302

- To ensure that HUD multi-family housing programs are administered as intended, HUD, and in some cases, contract administrators, monitor project operations.
- The information is used to assist HUD in detecting operational deficiencies and their causes.
- The information is provided to owners so that they can correct the deficiencies.



Project Monitoring Tools

303

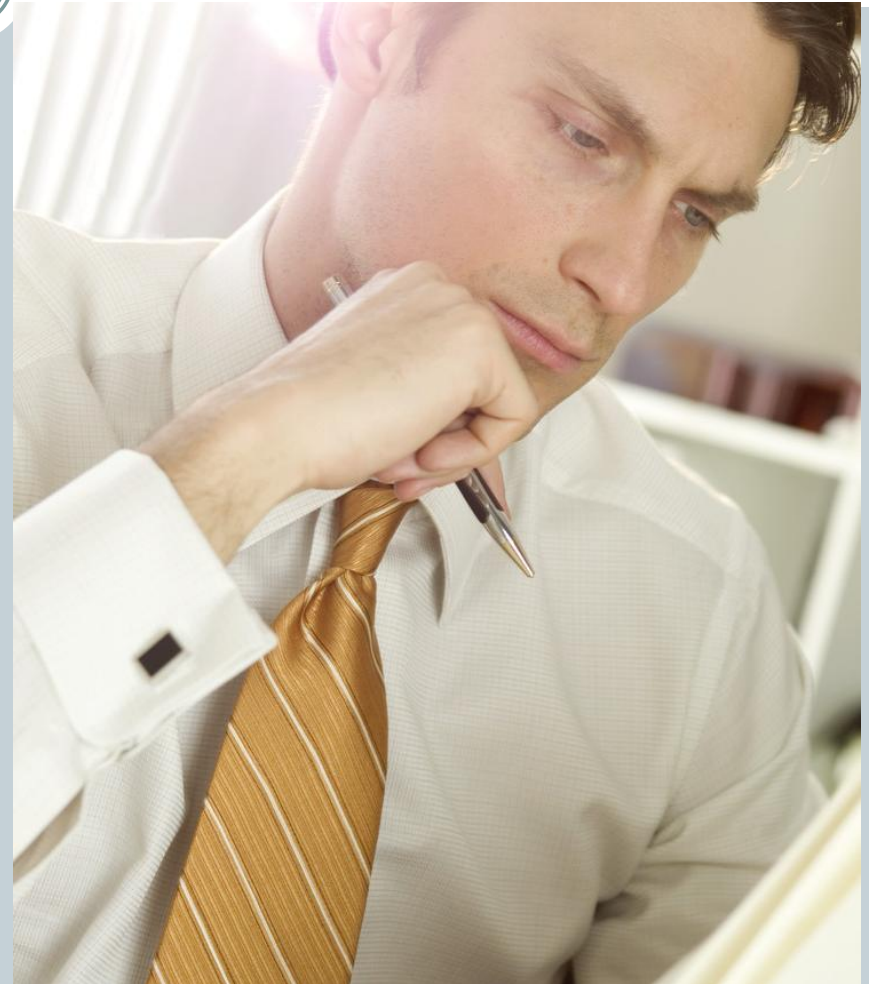
- Management Reviews
- Physical Inspections
- Occupancy Reviews
- Review of monthly accounting reports and annual financial statements



Documents HUD Reviews

304

- REAC physical inspection reports.
- The owner's policies and operating procedures to determine if they are consistent with HUD requirements.
- Annual financial statement in the Financial Assessment Subsystem (FASS) to determine the property's financial performance and the owner's compliance with HUD requirements.



Physical Inspection Report

305

The Inspector:

- Observes for deficiencies
- Classifies the deficiencies based on severity
- Determines a weighted score

The Five Areas Scored:

- Site
- Building exterior
- Building systems
- Common areas (if present)
- Units

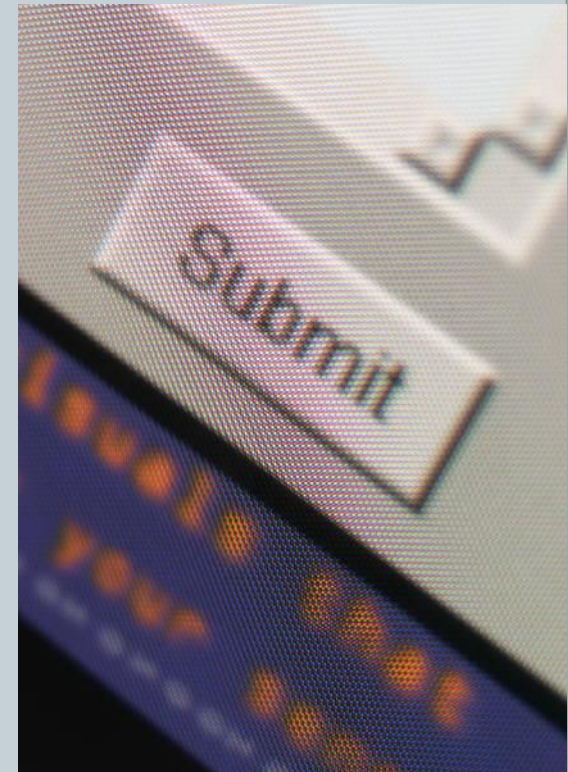


Properties with scores below 60 receive additional administrative oversight.

Financial Assessment Subsystem

306

- The Financial Assessment Subsystem (FASS) is a secure, web-based system that allows users to access and submit annual financial statement data via the Internet.
- FAASS performs assessments of the property's financial data, highlighting projects with compliance deficiencies.



Financial Assessment Subsystem Data

307

FASS Data includes:

- Balance Sheet Data
- Profit & Loss Data
- Equity Data
- Cash Flow Data
- Notes
- Auditor's Reports
- Findings & Prior Audits
- Reserve Accounts Data
- Surplus Cash & Fixed Asset Data
- Nursing Home /Assisted Living Data
- Certification/Federal Awards Data

Topic 9.5: Preparing for HUD to Perform Periodic Analysis of the Financial and Physical State of Properties

308



Preparing for HUD Inspections and Analysis

309

- It is important to maintain good standing with HUD in order to be eligible for the many preservation tools discussed in this training.
- Financial Audit: contract provisions and HUD regulations require program participants to submit an electronic version of the ownership entity's audited annual financial report in the format prescribed by the Department.
- The owner's financial report must be audited by an independent public accountant (IPA).
- The role of the independent auditor is to provide reasonable assurance that the statements are fairly presented in all material respects.

Financial Information to be Audited

310

Independent Auditors will look at basic financials such as:

Balance Sheet

Statement of Income

Statement of Changes in
Partner Capital

Statement of Cash Flows

Additional Financial Information

311

Auditors may also examine additional information, such as:

- Supplemental Schedule of Changes in Fixed Assets
- Supplemental Schedule of Reserve for Replacements

Preparing for a Physical Property Inspection

312

- To prepare for a physical property inspection, start by conducting your own 100% inspection of your property.
- The inspection should include the site, all building exteriors, all building systems, all common areas and all units.
- Pay special attention to the “Top 20 Deficiencies that are Overlooked.”

Top 20 Deficiencies that are Overlooked

313

1

- Water Heater

2

- Misaligned Chimney

3

- Missing HVAC covers

4

- Access to Electrical Panel

5

- Missing Electrical Panel Cover

Top 20 Deficiencies that are Overlooked

(continued)

314

6

- Open Breaker/Fuse Ports

7

- Doors - Damaged Seals

8

- Doors - Damaged Hardware

9

- Security Doors

10

- Kitchen

Top 20 Deficiencies that are Overlooked

(continued)

315

11

- Plumbing

12

- Damaged Sinks/Showers

13

- Clothes Dryers

14

- Storm Water Sewers

15

- Sanitary Sewer Damaged Covers

Top 20 Deficiencies that are Overlooked

(continued)

316

16

- Trash Chutes

17

- Trash Receptacles

18

- Auxiliary Lighting

19

- Leaking Domestic Water

20

- Outlet and Switch Plate Covers

Review Question 1

317

1. Distribution of surplus cash is not permitted, and must be deposited in a residual receipts account. Which type of ownership does this statement apply to?
 - a. Limited Dividend Owners
 - b. Non-profit Property Owners
 - c. Owners of 221(d)(3)BMIR Properties
 - d. All of the above

Review Question 1

318

1. Distribution of surplus cash is not permitted, and must be deposited in a residual receipts account. Which type of ownership does this statement apply to?
 - a. Limited Dividend Owners
 - b. **Non-profit Property Owners**
 - c. Owners of 221(d)(3)BMIR Properties
 - d. All of the above

Review Question 2

319

2. Your 24 unit property is in need of new heating and air conditioning units that will cost \$6,000 per unit. The average life span for the units is 15 years. What is the estimated monthly Reserve for Replacement deposit amount?
- a. \$800
 - b. \$960
 - c. \$8,000
 - d. \$9,600

Review Question 2

320

2. Your 24 unit property is in need of new heating and air conditioning units that will cost \$6,000 per unit. The average life span for the units is 15 years. What is the estimated monthly Reserve for Replacement deposit amount?
- a. **\$800**
 - b. \$960
 - c. \$8,000
 - d. \$9,600

Review Question 3

321

3. There are 5 areas that are scored during a property inspection. Which one does **not** belong?
- a. Building exterior
 - b. Units
 - c. Common areas
 - d. Building systems
 - e. Roads
 - f. Site

Review Question 3

322

3. There are 5 areas that are scored during a property inspection. Which one does **not** belong?
- a. Building exterior
 - b. Units
 - c. Common areas
 - d. Building systems
 - e. **Roads**
 - f. Site

Review: Lesson 9 Objectives

323

HUD works with owners to facilitate the preservation of affordable housing, allowing the use of funds in the Reserve for Replacement fund and Residual Receipts account for repairs and sustaining long-term viability of the property. In order to determine the availability, use, and restrictions of these funds, the owner must:

- Recognize the importance of maintaining a good relationship with HUD to be eligible for preservation tools and programs.
- Perform the HUD calculations necessary to determine surplus cash when given a hypothetical balance sheets.
- Accurately interpret and apply HUD guidelines for establishing and using Residual Receipts.

Review: Lesson 9 Objectives (continued)

324

- Demonstrate the ability to recognize and apply HUD control instruments for the funding and use of Project Reserve for Replacements (R4R).
- Identify criteria that HUD project managers use to determine management and project compliance and financial stability.
- Provide the information and metrics necessary for HUD project managers to perform periodic analysis of the financial and physical state of their properties.

Lesson 10: Long-Term Affordable Housing Preservation

325



Lesson 10: Objectives

326

- Identify affordability factors for example properties.
- Recognize long-term commitments defined in Use Agreements.
- Outline the requirements, incentives, and process to execute a long-term affordable housing preservation Use Agreement.

Topic 10.1: Affordability Factors

327



Affordability Factors

328

Rents Remain Affordable

- Below Market Interest Rate loans (Section 221(d)(3) properties)
- Properties with Interest Reduction Payments to subsidize the mortgage

Tenants Pay Only a Portion of the Rent

- Project-based Section 8 contracts
- Properties with other subsidy contracts such as Rent Supplement or Rental Assistance Payment (RAP)

Activity: Factors that Impact Sustainability

Analyze factors that contribute to the sustainability of affordable multifamily housing properties.

Instructions

- In a small group, discuss each factor listed in the table to:
 - Determine how it can affect the long-term sustainability of the property.
 - Generate ideas for actions that can be taken to modify the factors in order to improve the sustainability of properties.
- Write key points that emerge from your discussion in the table provided.
- Identify any factors not included in the provided list that have a significant impact on the sustainability of affordable multifamily housing properties.

Factors that Impact Sustainability

330

- Robust initial underwriting
- Neighborhood dynamics
- Owner attitude toward the property
- Active communication with residents
- Conveying a sense of community, mutual respect, and responsibility
- Professional property management with full fluency in required HUD reporting and regulatory requirements
- Aggressive management of operating costs and pursuit of preventative maintenance programs
- Aggressive pursuit of required rent increases
- Periodic recapitalization
- Diligent and fair resident selection policies

Topic 10.2: Long-Term Commitments in Use Agreements

331



Use Agreement Overview

332

- A Use Agreement is executed on certain properties where the owner prepays the mortgage prior to the maturity/expiration of the original mortgage.
- HUD will enter into a Use Agreement with an owner in order to extend and preserve affordable housing for low-income families.



Use Agreement Requirements

333

1

Must provide housing for the population group until the expiration of the original mortgage. Under certain conditions, the affordability period must be extended.

2

The Use Agreement must be recorded in a superior position to any other liens or recorded covenants/agreement.

3

The property must be maintained in a decent, safe, and sanitary manner, and must be in compliance with all HUD rules.

Topic 10.3: Completing a Long-Term Use Agreement

334



Long-Term Use Agreement Process

335

- After the local HUD office approves the prepayment proposal, the owner and HUD execute the Use Agreement.
- Owner must have the Use Agreement recorded in a superior position to any financing and the owner must provide evidence of the recordation to the local HUD Office at or before the actual prepayment.



Review Question 1

336

1. The approaches used to provide low-income families with affordable housing can be divided into two high-level categories referred to as affordability factors. One type of affordability factor is to keep rents affordable for tenants to be able to pay the entire rent. The other is to require the tenants to pay only a portion of the total rent each month.

Which of the following types of properties contribute to providing affordable housing by helping keeping rents affordable? (Circle all that apply.)

- a. Properties with Below Market Interest Rate loans (Section 221(d)(3))
- b. Properties with Project-based Section 8 contracts
- c. Properties with Interest Reduction Payments
- d. Properties with Rent Supplement or Rental Assistance Payment contracts

Review Question 1

337

1. The approaches used to provide low-income families with affordable housing can be divided into two high-level categories referred to as affordability factors. One type of affordability factor is to keep rents affordable for tenants to be able to pay the entire rent. The other is to require the tenants to pay only a portion of the total rent each month.

Which of the following types of properties contribute to providing affordable housing by helping keeping rents affordable? (Circle all that apply.)

- a. **Properties with Below Market Interest Rate loans (Section 221(d)(3))**
- b. Properties with Project-based Section 8 contracts
- c. **Properties with Interest Reduction Payments**
- d. Properties with Rent Supplement or Rental Assistance Payment contracts

Review Lesson 10: Objectives

338

- Identify affordability factors for example properties.
- Recognize long-term commitments defined in Use Agreements.
- Outline the requirements, incentives, and process to execute a long-term affordable housing preservation Use Agreement.

Activity: Post-Training Knowledge Assessment

Take a short quiz to demonstrate the knowledge you gained regarding preserving affordable housing.

Instructions

- Your facilitator will distribute a Post-Training Knowledge Assessment.
- Answer the questions included in the assessment to the best of your ability.
- Submit your completed assessment to the facilitator.

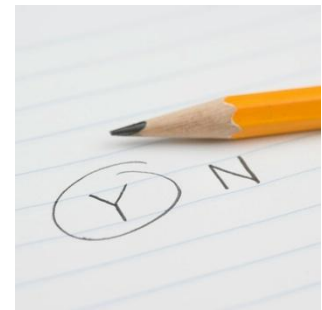


Activity: Course Evaluation

Complete a brief survey to provide feedback regarding this training event. We will use to improve this training event.

Instructions

- Your facilitator will provide you with a Course Evaluation survey.
- Complete the survey to convey your opinion regarding this training event, and any suggestions you might have.
- Submit your completed course evaluation survey to the facilitator.
- Your feedback will be analyzed and used to improve future sessions of this training.



Thank You!

341

- Thank you for attending this training event.
- We hope you found it to be informative and action-oriented.

